MEDICIS PHARMACEUTICAL CORP
Form DEF 14A
April 13, 2006

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

Filed by the Registrant þ
Filed by a Party other than the Registrant o
Check the appropriate box:
o Preliminary Proxy Statement
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
þ Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12

MEDICIS PHARMACEUTICAL CORPORATION

(Name of Registrant as Specified in its Charter)

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

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(1) Amount Previously Paid:

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(4) Date Filed:

Table of Contents

April 14, 2006

Dear Stockholder:

You are invited to attend the Annual Meeting of Stockholders of Medicis Pharmaceutical Corporation to be held on May 23, 2006, at 9:30 A.M. local time, at the Scottsdale Resort & Conference Center, 7700 East McCormick Parkway, Scottsdale, Arizona.

At this year s Annual Meeting you will be asked to: (i) elect two directors to serve for a three year term; (ii) approve the Medicis 2006 Incentive Award Plan; (iii) ratify the selection of the Company s independent registered public accountants; and (iv) transact such other business as may properly come before the Annual Meeting. The accompanying Notice of Meeting and Proxy Statement describe these matters. We urge you to read this information carefully.

Your Board of Directors unanimously believes that election of its nominees for directors, the approval of the Medicis 2006 Incentive Award Plan and ratification of the Audit Committee s selection of independent registered public accountants are in the best interests of Medicis and its stockholders, and, accordingly, recommends a vote FOR election of the two nominees for directors, FOR the approval of the Medicis 2006 Incentive Award Plan and FOR the ratification of the selection of Ernst & Young LLP as our independent registered public accountants.

In addition to the business to be transacted as described above, management will speak on the Company s developments of the past year and respond to comments and questions of general interest to stockholders.

It is important that your shares be represented and voted whether or not you plan to attend the Annual Meeting in person. You may vote on the Internet, by telephone or by completing and mailing the enclosed proxy card. Voting over the Internet, by telephone or by written proxy will ensure your shares are represented at the Annual Meeting. Voting on the Internet or by telephone may not be available to all stockholders. Please review the instructions on the proxy card or the information forwarded by your bank, broker or other holder of record regarding each of these voting options.

Sincerely,

Mark A. Prygocki
Executive Vice President,
Chief Financial Officer,
Corporate Secretary and Treasurer

TABLE OF CONTENTS

Table of Contents

MEDICIS PHARMACEUTICAL CORPORATION
8125 North Hayden Road
Scottsdale, Arizona 85258

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To Be Held on May 23, 2006

To the Stockholders of Medicis Pharmaceutical Corporation:

We will hold an annual meeting of stockholders of Medicis at the Scottsdale Resort & Conference Center, 7700 East McCormick Parkway, Scottsdale, Arizona, on May 23, 2006, at 9:30 A.M. local time, for the following purposes:

1. To elect Arthur G. Altschul, Jr. and Philip S. Schein, M.D. to a three-year term expiring at the 2009 annual meeting of stockholders and until their successors are duly elected and qualified or until their earlier resignation or removal.

2. To approve the Medicis 2006 Incentive Award Plan (the 2006 Plan), which will replace all prior equity plans. The number of shares that may be issued under the 2006 Plan is originally equal to the number of shares available for issuance under Medicis active, existing prior equity plans at the time the 2006 Plan becomes effective. To the extent of any cancellation, termination, expiration or forfeiture of any currently outstanding award under any such prior plan, the number of shares that may be issued under the 2006 Plan will automatically be increased by one share for each share subject to such award, subject to certain limitations.

3. To ratify the selection of Ernst & Young LLP as independent auditors of Medicis for the fiscal year ending December 31, 2006.

4. To transact any other business as may properly come before the annual meeting or any adjournments or postponements of the annual meeting.

These items of business are described in the attached joint proxy statement/ prospectus. Only Medicis stockholders of record at the close of business on March 30, 2006, the record date for the annual meeting, are entitled to notice of and to vote at the annual meeting and any adjournments or postponements of the annual meeting.

A list of stockholders eligible to vote at the Medicis annual meeting will be available for inspection at the annual meeting, and at the executive offices of Medicis during regular business hours for a period of no less than ten days prior to the annual meeting.

Your vote is very important. It is important that your shares be represented and voted whether or not you plan to attend the annual meeting in person. You may vote by completing and mailing the enclosed proxy card, or you may grant your proxy electronically via the Internet or by telephone. If your shares are held in street name, which means shares held of record by a broker, bank or other nominee, you should check the voting form used by that firm to determine whether you will be able to submit your proxy by telephone or over the Internet. Submitting a proxy over the Internet, by telephone or by mailing the enclosed proxy card will ensure your shares are represented at the annual meeting. Please review the instructions in this joint proxy

Table of Contents

statement/ prospectus and the enclosed proxy card or the information forwarded by your bank, broker or other holder of record regarding each of these options.

By Order of the Board of Directors,

Mark A. Prygocki
Executive Vice President, Chief Financial Officer,
Corporate Secretary and Treasurer of
Medicis Pharmaceutical Corporation

Table of Contents

PROXY STATEMENT

INFORMATION CONCERNING VOTING AND SOLICITATION

General

The enclosed proxy is solicited on behalf of the Board of Directors (the Board of Directors or the Board) of Medicis Pharmaceutical Corporation, a Delaware corporation (the Company or Medicis), for use at the 2006 Annual Meeting of Stockholders (the Annual Meeting) to be held on Wednesday, May 23, 2006, at 9:30 A.M. local time, or at any continuation, postponement or adjournment thereof, for the purposes discussed in this Proxy Statement and in the accompanying Notice of Annual Meeting and any business properly brought before the Annual Meeting. Proxies are solicited to give all stockholders of record an opportunity to vote on matters properly presented at the Annual Meeting. The Company intends to mail this Proxy Statement and accompanying proxy card on or about April 14, 2006 to all stockholders entitled to vote at the Annual Meeting. The Annual Meeting will be held at the Scottsdale Resort & Conference Center, 7700 East McCormick Parkway, Scottsdale, Arizona.

Who Can Vote

You are entitled to vote if you were a stockholder of record of Medicis Class A common stock, $.014 par value (the Common Stock) as of the close of business on March 30, 2006. You are entitled to one vote for each share of Common Stock held on all matters to be voted upon at the Annual Meeting. Your shares may be voted at the Annual Meeting only if you are present in person or represented by a valid proxy.

Voting of Shares

You may vote by attending the Annual Meeting and voting in person. You also may vote on the Internet, by telephone or by completing and mailing the enclosed proxy card. Voting on the Internet or by telephone may not be available to all stockholders. The Internet and telephone voting facilities will close at 11:59 p.m. E.D.T. on May 16, 2006. Stockholders who vote through the Internet should be aware that they may incur costs to access the Internet, such as usage charges from telephone companies or Internet service providers and that these costs must be borne by the stockholder. Stockholders who vote by Internet or telephone need not return a proxy card by mail. If your shares are held by a bank, broker or other nominee, please refer to the instructions they provide for voting your shares. All shares entitled to vote and represented by properly executed proxies received before the polls are closed at the Annual Meeting, and not revoked or superseded, will be voted at the Annual Meeting in accordance with the instructions indicated on those proxies. YOUR VOTE IS IMPORTANT.

Voting by Proxy

The method of voting by proxy differs for shares held as a record holder and shares held in street name. If you hold your shares of Medicis Common Stock as a record holder, you may vote by completing, dating and signing the enclosed proxy card and promptly returning it in the enclosed, preaddressed, postage paid envelope or otherwise mailing it to Medicis, or by submitting a proxy over the Internet or by telephone by following the instructions on the enclosed proxy card. If you hold your shares of Medicis Common Stock in street name, which means your shares are held of record by a broker, bank or nominee, you will receive instructions from your broker, bank or other nominee that you must follow in order to vote your shares. Your broker, bank or nominee may allow you to deliver your voting instructions over the Internet or by telephone. Please see the voting instructions from your broker, bank or nominee that accompany this joint proxy statement/ prospectus.

Your vote is very important. Accordingly, please complete, sign and return the enclosed proxy card or voting instruction care whether or not you plan to attend the Medicis Annual Meeting in person. You should vote your proxy even if you plan to attend the Medicis Annual Meeting. Voting instructions are included on your proxy card. If you properly give your proxy and submit it to Medicis in time to vote, one of the individuals named as your proxy will vote your shares as you have directed.

Table of Contents

All properly signed proxies that are received prior to the Annual Meeting and that are not revoked will be voted at the Annual Meeting according to the instructions indicated on the proxies or, if no direction is indicated, they will be voted **FOR** the election of each of the two nominees for director, **FOR** approval of the Medicis 2006 Incentive Award Plan and **FOR** ratification of the selection of the independent auditors.

Revocation of Proxy

If you are a stockholder of record, you may revoke your proxy at any time before your proxy is voted at the Medicis annual meeting by taking any of the following actions:

- delivering to the corporate secretary of Medicis a signed written notice of revocation, bearing a date later than the date of the proxy, stating that the proxy is revoked;
- signing and delivering a new proxy, relating to the same shares and bearing a later date;
- submitting another proxy by telephone or on the Internet (your latest telephone or Internet voting instructions are followed); or
- attending the Medicis Annual Meeting and voting in person, although attendance at the Annual Meeting will not, by itself, revoke a proxy.

If your shares are held in street name, you may change your vote by submitting new voting instructions to your broker, bank or other nominee. You must contact your broker, bank or other nominee to find out how to do so.

Written notices of revocation and other communications with respect to the revocation of Medicis proxies should be addressed to:

Medicis Pharmaceutical Corporation
8125 North Hayden Road
Scottsdale, Arizona 85258
Attn: Corporate Secretary

Voting in Person

If you plan to attend the Medicis Annual Meeting and wish to vote in person, you will be given a ballot at the Annual Meeting. Please note, however, that if your shares are held in street name, which means your shares are held of record by a broker, bank or other nominee, and you wish to vote at the Medicis Annual Meeting, you must bring to the annual meeting a proxy from the record holder of the shares authorizing you to vote at the Medicis annual meeting.

Quorum and Votes Required

At the close of business on March 30, 2006, 54,370,372 shares of Common Stock were outstanding and entitled to vote. All votes will be tabulated by the inspector of election appointed for the Annual Meeting, who will separately tabulate affirmative and negative votes and abstentions.

A majority of the outstanding shares of Common Stock, present in person or represented by proxy, will constitute a quorum at the Annual Meeting. Shares held by persons attending the Annual Meeting but not voting, shares represented by proxies that reflect abstentions as to a particular proposal and broker non-votes will be counted as present for purposes of determining a quorum. Brokers or other nominees who hold shares of Medicis common stock in street name for a beneficial owner of those shares typically have the authority to vote in their discretion on routine proposals when they have not received instructions from beneficial owners. However, brokers are not allowed to exercise their voting discretion with respect to the approval of matters which the NYSE determines to be non-routine, such as approval of the Medicis Pharmaceutical Corporation Equity and Incentive Award Plan, without specific instructions from the beneficial owner. These non-voted shares are referred to as broker non-votes. If your broker holds your Medicis common stock in street name, your broker will vote your shares on this proposal only if you provide instructions on how to

Table of Contents

vote by filling out the voter instruction form sent to you by your broker with this joint proxy statement/ prospectus.

For Proposal 1, directors will be elected by a plurality of the votes cast. As a result, abstentions will not be counted in determining which nominees received the largest number of votes cast. Broker non-votes are generally not expected to result from the vote on directors. Any broker-non-votes that may result will not affect the outcome of the election of directors.

For Proposal 2, under NYSE rules, the adoption of the Medicis 2006 Incentive Award Plan requires an affirmative vote of the holders of a majority of shares of common stock cast on such proposal, in person or by proxy, provided that the total vote cast on the proposal represents over 50% of the outstanding shares of common stock entitled to vote on the proposal. Votes for and against and abstentions count as votes cast, while broker non-votes do not count as votes cast. All outstanding shares, including broker non-votes, count as shares entitled to vote. Thus, the total sum of votes for, plus votes against, plus abstentions, which is referred to as the NYSE Votes Cast, must be greater than 50% of the total outstanding shares of our common stock. Once satisfied, the number of votes for the proposal must be greater than 50% of NYSE Votes Cast.

For Proposal 3, the affirmative vote of a majority of the shares represented in person or by proxy at the annual meeting and entitled to vote is required for the ratification of the selection of Ernst & Young as our independent auditors. Abstentions will have the same effect as voting against this proposal. Broker non-votes are generally not expected to result from the vote on Proposal 3. Any broker-non-votes that may result will not affect the outcome of this proposal.

Solicitation of Proxies

The Medicis board of directors is soliciting proxies for the Medicis Annual Meeting from Medicis stockholders. Medicis will bear the entire cost of soliciting proxies from Medicis stockholders. In addition to the solicitation of proxies by mail, Medicis will request that brokers, banks and other nominees send proxies and proxy materials to the beneficial owners of Medicis common stock held by them and secure their voting instructions. Medicis will reimburse those record holders for their reasonable expenses. Medicis has engaged The Proxy Advisory Group, LLC, to assist in the solicitation of proxies and provide related advice and informational support, for a services fee and the reimbursement of customary disbursements, which are not expected to exceed $15,500 in the aggregate. Medicis also may use several of its regular employees, who will not be specially compensated, to solicit proxies from Medicis stockholders, either personally or by telephone, Internet, telegram, facsimile or special delivery letter.

Assistance

If you need assistance in completing your proxy card or have questions regarding the Medicis Annual Meeting, please contact Medicis Investor Relations at (602) 808-3854 or investor.relations@medicis.com or write to Investor Relations, Medicis Pharmaceutical Corporation, 8125 North Hayden Road, Scottsdale, Arizona 85258, Attn: Investor Relations.

Table of Contents

CHANGE IN FISCAL YEAR

On December 12, 2005, our Board of Directors resolved to change our fiscal year end from June 30 to December 31, effective December 31, 2005. Our just-ended fiscal period consists of the six-month transition period (the Transition Period) from July 1, 2005 to December 31, 2005. Prior to the Transition Period, our fiscal years were from July 1 to June 30th, we refer to such prior periods as fiscal year 2005, 2004 and 2003. Our current fiscal year commenced on January 1, 2006 and will end on December 31, 2006.

ITEM 1
ELECTION OF DIRECTORS

Board Structure

Our Amended and Restated Bylaws provide for a range of directors from three to twelve, with the exact number set by the Board. The Board has set the current authorized directors at eight members. The directors are divided into three classes, that each serve for a term of three years. At each annual meeting, the term of one class expires. The class of directors with a term expiring at this annual meeting consists of two directors.

Board Nominees

Based upon the recommendation of the Nominating and Governance Committee, the Board of Directors has nominated Arthur G. Altschul, Jr. and Phillip S. Schein, M.D. for re-election as directors to the Board. If elected, each director nominee would serve a three-year term expiring at the close of our 2009 Annual Meeting, or until their successors are duly elected. Mr. Altschul and Dr. Schein are currently directors of Medicis. Biographical information on each of the nominees is furnished below under Director Biographical Information.

Set forth below is information regarding each nominee and each person whose term of office as a director will continue after the Annual Meeting as of the record date. Also set forth below is information regarding executive officers as of the record date. There are no family relationships among any directors of the Company.

Name	Age	Position	Director Since	Term Expires
Jonah Shacknai(1)	49	Chairman, Chief Executive Officer, Director	1988	2007
Arthur G. Altschul, Jr.(2)(3)(4)	41	Director	1992	2006
Spencer Davidson(1)(3)(4)	63	Director	1999	2008
Stuart Diamond(2)	45	Director	2002	2008
Peter S. Knight, Esq.	55	Director	1997	2008
Michael A. Pietrangelo(1)(3)	63	Director	1990	2007
Philip S. Schein, M.D.(2)(4)	66	Director	1990	2006
Lottie H. Shackelford(4)	64	Director	1993	2007
Richard J. Havens	56	Executive Vice President, Sales and Marketing	N/A	N/A
Mark A. Prygocki	39	Executive Vice President, Chief Financial Officer	N/A	N/A
Mitchell S. Wortzman, Ph.D.	55	Executive Vice President and Chief Scientific Officer	N/A	N/A

(1) Current member of the Executive Committee of the Board

(2) Current member of the Audit Committee of the Board

(3) Current member of the Stock Option and Compensation Committee of the Board

(4) Current member of the Nominating and Governance Committee of the Board

Director Biographical Information

The following biographical information is furnished with regard to the directors (including nominees) of Medicis as of March 30, 2006.

Nominees for Election for a Three-Year Term Expiring at the 2009 Annual Meeting of Stockholders

Arthur G. Altschul, Jr., age 41, has been a director since December 1992. He has worked in money management, investment banking and as a member of senior management of a publicly-traded health care concern. Mr. Altschul is a founder and a Managing Member of Diaz & Altschul Capital Management, LLC, a private investment advisory firm, a position he has held since 1996. From 1992 to 1996, Mr. Altschul worked at SUGEN, Inc., a biopharmaceutical firm. Prior to 1992, Mr. Altschul worked in the Equity and Fixed Income Trading departments at Goldman, Sachs & Co., was a founding limited partner of The Maximus Fund, LP, and worked in the Equity Research department at Morgan Stanley & Company. Mr. Altschul serves on the Board of Directors of General American Investors, Inc., a New York Stock Exchange-traded closed-end investment company; Delta Opportunity Fund, Ltd., an investment fund which invests primarily in the healthcare industry; Medrium, Inc., a provider of automated medical billing solutions; and other private ventures. He also serves as a director of The Overbrook Foundation, a trustee of The Neurosciences Research Foundation, Inc. and as a trustee of the National Public Radio Foundation. Mr. Altschul holds a B.S. from Columbia University in Computer Science.

Philip S. Schein, M.D., age 66, has been a director since October 1990. Since 2002, Dr. Schein has served as Visiting Professor in Cancer Pharmacology, Oxford University; and since 1999, as President of The Schein Group, a consulting service to the pharmaceutical industry. Dr. Schein was the Founder, Chairman and Chief Executive Officer of U.S. Bioscience, Inc., a publicly-held pharmaceutical company involved in the development and marketing of chemotherapeutic agents, from 1987 to 1998. His prior appointments included Scientific Director of the Vincent T. Lombardi Cancer Research Center at Georgetown University; Vice President for Worldwide Clinical Research and Development, SmithKline and French Labs; and Senior Investigator and Head of the Clinical Pharmacology Section at the National Cancer Institute. He has served as President of the American Society of Clinical Oncology and has chaired the Food and Drug Administration Oncology Drugs Advisory Committee. Dr. Schein was appointed to the National Cancer Advisory Board by President Clinton. Dr. Schein currently serves on the board of directors of Oncomethylome Sciences, a private specialty diagnostic company focused on the development and marketing of cancer diagnostics.

Board Recommendation

THE BOARD UNANIMOUSLY RECOMMENDS A VOTE FOR EACH OF THE TWO DIRECTOR NOMINEES

Directors Continuing in Office Until the 2007 Annual Meeting of Stockholders

Jonah Shacknai, age 49, founder, has been Chairman and Chief Executive Officer of Medicis Pharmaceutical Corporation since 1988. From 1977 until late 1982, Mr. Shacknai served as chief aide to the House of Representatives committee with responsibility for health policy, and in other senior legislative positions. During his service with the House of Representatives, Mr. Shacknai drafted significant legislation affecting health care, environmental protection, science policy, and consumer protection. He was also a member of the Commission on the Federal Drug Approval Process, and the National Council on Drugs. From 1982 to 1988, as senior partner in the law firm of Royer, Shacknai, and Mehle, Mr. Shacknai represented over 30 multinational pharmaceutical and medical device concerns, as well as four major industry trade associations. Mr. Shacknai also served in an executive capacity with Key Pharmaceuticals, Inc., prior to its acquisition by Schering-Plough Corporation. Mr. Shacknai is currently president and director of the Whispering Hope Ranch Foundation, a ranch centered around special needs children, and is an honorary director of Delta Society, a public service organization promoting animal-human bonds. He is also a director of the Southwest Autism Research & Resource Center and a member of the Board of Trustees of the National Public Radio Foundation. In November 1999, Mr. Shacknai was selected to serve a three-year term on the Listed Company Advisory Committee to the New York Stock Exchange (LCAC). The LCAC was created in 1976 by the New York Stock Exchange board to address issues that are of critical importance to the Exchange and the corporate community. In May 2002, Mr. Shacknai was honored with a Doctorate of Humane Letters by the NYCPM (affiliate of Columbia University College of Physicians & Surgeons), and in the Fall of 2001, he received the national award from the Freedoms Foundation at Valley Forge®. In January 2000, Mr. Shacknai was selected as Entrepreneurial Fellow at the Karl Eller Center of the University of Arizona. In 1997, he received the Arizona Entrepreneur of the Year award, and was one of three finalists for U.S. Entrepreneur of the Year. Mr. Shacknai has served as a member of the National Arthritis and Musculoskeletal and Skin Diseases Advisory Council of the National Institutes of Health, and on the U.S.-Israel Science and Technology Commission, both federal cabinet-appointed positions. Mr. Shacknai obtained a B.S. degree from Colgate University and a J.D. from Georgetown University Law Center.

Lottie H. Shackelford, age 64, has been a director since July 1993. Ms. Shackelford has been Executive Vice President of Global USA, Inc., a government relations firm, since April 1994, and has been Vice Chair of the Democratic National Committee since February 1989. Ms. Shackelford was Executive Vice President of U.S. Strategies, Inc., a government relations firm, from April 1993 to April 1994. She was also Co-Director of Intergovernmental Affairs for the Clinton/ Gore presidential transition team between November 1992 and March 1993; Deputy Campaign Manager of Clinton for President from February 1992 to November 1992; and Executive Director, Arkansas Regional Minority Purchasing Council, from February 1982 to January 1992. In addition, Ms. Shackelford has served in various local government positions, including Mayor of Little Rock, Arkansas. She also is a former director of Philander Smith College, the Chapman Funds in Baltimore, Maryland, and the Overseas Private Investment Corporation.

Michael A. Pietrangelo, age 63, has been a director since October 1990. Since 1998, Mr. Pietrangelo has practiced law at Pietrangelo Cook PLC, based in Memphis, Tennessee. From November 1997 until September 30, 2005, Mr. Pietrangelo also served as a consultant to Medicis in areas relating to the pharmaceutical industry. Admitted to the bar in New York, Tennessee and the District of Columbia, he was an attorney with the Federal Trade Commission from 1967 to 1968, and later for Pfizer, Inc., from 1968 to 1972. Mr. Pietrangelo then joined Schering-Plough Corporation in Memphis, Tennessee in 1972, first as Legal Director and as Associate General Counsel. During that time, he was also appointed Visiting Professor of Law by the University of Tennessee and University of Mississippi School of Pharmacy. In 1980, Mr. Pietrangelo left corporate law and focused on consumer products management, serving in a variety of executive positions at Schering-Plough Corporation prior to being named President of the Personal Care Products Group in 1985. In 1989, he was asked to join Western Publishing Group as President and Chief Operating Officer. From 1990 to 1994, Mr. Pietrangelo was the President and Chief Executive Officer of CLEO, Inc., a Memphis-based subsidiary of Gibson Greetings, Inc., a manufacturer of specialized paper products. From 1994 until 1998, he served as President of Johnson Products Company, a subsidiary of IVAX Corporation. Mr. Pietrangelo also serves on the board of directors of R.A.B. Holdings, Inc., a private manufacturer and distributor of food products and of the American Parkinson Disease Association, a not-for-profit organization.

Directors Continuing in Office Until the 2008 Annual Meeting of Stockholders

Spencer Davidson, age 63, has been a director since January 1999. Since 1994, Mr. Davidson has served as President, Chief Executive Officer and a director of General American Investors Company, Inc., a closed-end investment company listed on the New York Stock Exchange (NYSE:GAM). His background also includes a distinguished career on Wall Street with positions held at Brown Brothers Harriman; Beck, Mack & Oliver, investment counselors, where he served as General Partner; and Odyssey Partners, a private investment firm, where he served as Fund Manager. Additionally, Mr. Davidson currently serves as the General Partner of The Hudson Partnership, a private investment partnership, and serves as Trustee for both the Innisfree Foundation, Inc. of Millbrook, New York, and the Neurosciences Research Foundation, Inc. of San Diego, California. A graduate of City College and Columbia University, Mr. Davidson holds an M.B.A., a C.F.A. and a C.I.C.

Table of Contents

Stuart Diamond, age 45, has been a director since November 2002. He has served as Chief Financial Officer of National Medical Health Card Systems Inc., a publicly-traded provider of pharmacy benefits management services, since January 2006. He served as worldwide Chief Financial Officer for Ogilvy Healthworld (formerly Healthworld Corporation), a division of Ogilvy & Mather, a division of WPP Group Plc, a London Stock Exchange-listed company, from January 2005 until January 2006, and he served as Chief Financial Officer of Healthworld Communications Group, a division of WPP Group Plc, a London Stock Exchange-listed company, from August 2003 until January 2005. He served as Chief Financial Officer of the Americas Region of the Bates Group and of Healthworld Corporation, divisions of Cordiant Communications, a London Stock Exchange-listed company, from October 2002 to August 2003. He served as Chief Financial Officer of Healthworld Corporation, a division of Cordiant Communications Group plc from March 2000 to October 2002. He served as Executive Vice President, Chief Financial Officer, Secretary and Treasurer of Healthworld Corporation, a publicly-owned pharmaceutical advertising agency, from August 1997 to March 2000. Mr. Diamond was the Vice President-Controller of the Licensing Division of Calvin Klein, Inc., an apparel company, from April 1996 to August 1997. Mr. Diamond served as Chief Financial Officer of Medicis from 1990 until 1995.

*Peter S. Knight, Esq***.**, age 55, has been a director since June 1997. Since August 2004, Mr. Knight has served as President of Generation Investment Management, US, a London-based investment firm focusing on global equities and sustainability. From September 2001 to December 2003, Mr. Knight was a Managing Director of MetWest Financial, a Los Angeles-based financial services company. From 1999 until 2001, Mr. Knight served as President of Sage Venture Partners, overseeing technology and bio-technology investments. Mr. Knight started his career with the Antitrust Division of the Department of Justice. From 1977 to 1989, Mr. Knight served as Chief of Staff to Al Gore when Mr. Gore was a member of the U.S. House of Representatives and later the U.S. Senate. Mr. Knight served as the General Counsel of Medicis from 1989 to 1991, and then established his law practice representing numerous Fortune 500 companies as named partner in Wunder, Knight, a Washington, D.C. law firm. Mr. Knight has held senior positions on the last four presidential campaigns, including serving as the campaign manager for the successful 1996 re-election of President Clinton. Mr. Knight currently serves as a director of EntreMed, a NASDAQ listed clinical stage pharmaceutical company, and PAR Pharmaceutical Companies, Inc., an NYSE listed developer, manufacturer and distributor of generic pharmaceuticals. He is also a director of Schroders mutual fund and hedge fund family, and a member of the Cornell University Council. He holds a B.A. degree from Cornell University and a J.D. degree from Georgetown University Law Center.

Executive Officers of the Company

The following biographical information is furnished with regard to the executive officers of Medicis as of March 30, 2006.

Jonah Shacknai, see above Directors Continuing in Office Until the 2007 Annual Meeting of Stockholders.

Richard J. Havens, age 56, has served as Executive Vice President, Sales & Marketing since January 2001, and as Senior Vice President, Sales and Marketing for the Company from January 1999 to 2001. From 1982 to 1998, he was a senior marketing executive for Aventis (formerly Rhone-Poulenc Rorer Company), most recently in its dermatological division, Dermik Laboratories. Mr. Havens also held various sales positions with Warner-Lambert Company from 1974 to 1981. He is a member of the Dermatology Foundation Leaders Society, an affiliate member. of the North American Clinical Dermatologic Society Inc., an adjunct member of the American Academy of Dermatology Association and a member of the American Society for Dermatologic Surgery Industry Advisory Council.

Mark A. Prygocki, age 39, has served as Chief Financial Officer, Corporate Secretary and Treasurer since May 1995. In January 2001, Mr. Prygocki was also appointed as Executive Vice President. From October 1991 to May 1995, he served as Controller for Medicis. Prior to his employment at Medicis, Mr. Prygocki was employed by Citigroup, an investment banking firm, and spent several years in the audit department of Ernst & Young LLP. Mr. Prygocki is a member of the Financial Executive Institute and is certified by the

Arizona State Board of Accountancy and the New York Society of CPAs. Mr. Prygocki serves on the Boards of Whispering Hope Ranch Foundation and Visions of Hope, Inc., non-profit organizations that conduct programs for children with special medical needs.

Mitchell S. Wortzman, Ph.D., age 55, has served as Executive Vice President and Chief Scientific Officer since July 2003, and as Executive Vice President, Research & Development from January 2001 to July 2003. Dr. Wortzman served as Senior Vice President, Research and Development for Medicis from August 1997 to 2001. From 1980 to 1997, Dr. Wortzman was employed at Neutrogena Corporation, most recently serving as President of the Dermatologics Division since 1989.

Governance of Medicis

Composition of the Board of Directors

The Board of Directors has adopted Corporate Governance Guidelines to set forth its agreements concerning overall governance practices. These Guidelines can be found in the corporate governance section of our website at *www.medicis.com.* In accordance with the Guidelines, a member of the Medicis Board of Directors may serve as a director of another company only to the extent such position does not conflict or interfere with such person s service as a Medicis director. A director may not serve as a director of another company without consent of the Medicis Board of Directors. No director may serve as a director of more than three publicly-held companies. No director after having attained the age of 70 years shall be nominated for re-election or reappointment to the Medicis Board of directors.

The Board believes the positions of Chief Executive Officer and Chairman of the Board may be combined, where appropriate, to provide unified leadership and direction. The Board reserves the right to adopt a different policy should circumstances change. The Chief Executive Officer/ Chairman works closely with the entire Board and has regular substantive communications with the chairman of the Nominating and Governance Committee (Spencer Davidson), who is Medicis Lead Independent Director.

Board Independence

The Board has determined that all nominees for election to the Board at the annual meeting and all continuing directors, other than Mr. Shacknai, are independent under the listing standards of the NYSE. In making this determination, the Board considered all relationships between the Company and the director and the director s family members, including the former consulting relationship between the Company and Mr. Michael A. Pietrangelo. See Compensation of Directors below. The Board concluded that this relationship with was not material and that Mr. Pietrangelo is independent. In making this determination, the Board considered Mr. Pietrangelo s other commitments, affiliations and business activities, and the fact that (i) Mr. Pietrangelo provided limited services that did not involve any decision making and were primarily informative in nature, (ii) Mr. Pietrangelo received consulting fees of less than $40,000 per year and benefits with an incremental cost of approximately $12,000 per year; and (iii) the consulting relationship was terminated effective as of September 30, 2005.

Board Meetings and Committees

The Board maintains a standing Audit Committee, Nominating and Governance Committee, Stock Option and Compensation Committee. To view a charter of each of these committees please visit the Company s website at *www.medicis.com.*

The Board of Directors held twelve meetings during the fiscal year 2005 and eight meetings during the Transition Period. During fiscal year 2005 and the Transition Period all directors attended at least 75% of the combined total of (i) all Board meetings and (ii) all meetings of committees of the Board of which the director was a member. The Chairman of the Board or his designee, taking into account suggestions from other Board members, establishes the agenda for each Board meeting and distributes it in advance to the Board. Each Board member is free to suggest the inclusion of items on the agenda. The Board of Directors

Table of Contents

regularly meets in executive session without management present. The chairman of the Nominating Committee (Spencer Davidson) presides over these meetings as Medicis Lead Independent Director. The Board of Directors has a policy that all directors attend the Annual Meeting of stockholders, absent unusual circumstances. All of the directors attended the 2005 Annual Meeting telephonically.

Audit Committee

Medicis has a standing Audit Committee. The Audit Committee has sole authority for the appointment, compensation and oversight of the work of the independent registered public accountants, the independent internal auditors, and responsibility for reviewing and discussing, prior to filing or issuance, with management and the independent registered public accountants (when appropriate) the Company s audited consolidated financial statements included in its Annual Report on Form 10-K and earnings press releases. The Audit Committee carries out its responsibilities in accordance with the terms of its charter.

In fiscal year 2005 and the Transition Period, the Audit Committee was composed of Mr. Stuart Diamond (Chairman), Dr. Philip S. Schein, Mr. Michael A. Pietrangelo (through October 6, 2005) and Arthur G. Altschul, Jr. (commencing October 9, 2005). On October 20, 2005, the Company notified the NYSE that for the period from November 17, 2004 through October 6, 2005 the Audit Committee did not satisfy the requirements of Sections 303A.06 and 303A.07 of the NYSE Listed Company Manual (the Manual). These Sections of the Manual, which the Company became subject to effective November 17, 2004, require that the Company s Audit Committee have three members that satisfy the independence requirements of Rule 10A-3 under the Securities Exchange Act of 1934, as amended (the Exchange Act). Among other things, Rule 10A-3 requires that no member of the Audit Committee receive any consulting, advisory or other compensatory fees from the Company. Because of a consulting arrangement (described in Director Compensation below), which was terminated effective September 30, 2005, between the Company and Michael A. Pietrangelo, a member of the Company s Audit Committee from December 2, 2003 through October 6, 2005, the Company s Audit Committee was not in compliance with Sections 303A.06 and 303A.07 of the Manual from November 17, 2004 through October 6, 2005. In order to correct such noncompliance, effective October 6, 2005, Mr. Pietrangelo resigned from the Company s Audit Committee. On October 9, 2005, the Company s Board of Directors appointed Arthur G. Altschul, Jr. as a member of the Audit Committee of the Company s Board of Directors. As a result of Mr. Altschul s appointment, the Company s Audit Committee is now fully compliant with all of the NYSE listing standards.

The Board of Directors has determined that all current audit committee members are financially literate under the current listing standards of the NYSE and are independent under the requirements of Rule 10A-3. The Board also determined that Mr. Diamond qualifies as an audit committee financial expert as defined by the Securities Exchange Commission (the SEC) rules adopted pursuant to the Sarbanes-Oxley Act of 2002 and is independent as required by SEC regulations. During fiscal year 2005 and the Transition Period, the Audit Committee met six and six times, respectively.

Nominating and Governance Committee

Medicis has a standing Nominating and Governance Committee (the Nominating Committee). Spencer Davidson (Chairman), Arthur G. Altschul, Jr., Lottie H. Shackelford and Philip S. Schein (Alternate) were the members of the Nominating Committee during fiscal year 2005 and the Transition Period. The Nominating Committee met one time in fiscal 2005 and one time during the Transition Period. The Board has determined that each of the members of the Nominating Committee qualifies as an independent director under the NYSE standards. The purpose of the Nominating Committee is to make recommendations concerning the size and composition of the Medicis Board of Directors and its committees, evaluate and recommend candidates for election as directors, develop, implement and review Medicis corporate governance policies, and evaluate the effectiveness of the Medicis Board of Directors. The Nominating Committee works with the Board as a whole on an annual basis to determine the appropriate skills and characteristics required of board members in the context of the current make-up of the board and its committees.

The entire Medicis Board of Directors is responsible for nominating members for election to the Board and for filling vacancies on the Board that may occur between annual meetings of the stockholders. The Nominating Committee is responsible for identifying, screening and recommending candidates to the entire Board for prospective board membership. In evaluating the suitability of individuals, the Nominating Committee considers many factors, including issues of experience, wisdom, integrity, skills such as understanding of finance and marketing, educational and professional background and willingness to devote adequate time to Board duties. When formulating its Board membership recommendations, the Nominating Committee also considers any advice and recommendations offered by the Chief Executive Officer or Medicis stockholders. In determining whether to recommend a director for re-election, the Nominating Committee also considers the director s past attendance at meetings and participation in and contributions to the activities of the Board. The Nominating Committee evaluates each individual in the context of the Board as a whole, with the objective of recommending a group that can best perpetuate the success of the business and represent stockholder interests through the exercise of sound judgment using its diversity of experience in these various areas.

The Nominating Committee will consider stockholder recommendations of candidates on the same basis as it considers all other candidates. Stockholder recommendations should be submitted to Medicis under the procedures discussed in Additional Matters Stockholder Proposals and Nominations, and should include the candidate s name, age, business address, residence address, principal occupation or employment, the number of shares beneficially owned by the candidate, and information that would be required to solicit a proxy under federal securities law. In addition, the notice must include the recommending stockholder s name, address, the number of shares beneficially owned and the time period those shares have been held.

Stock Option and Compensation Committee

Medicis has a standing Stock Option and Compensation Committee (the Compensation Committee). Spencer Davidson (Chairman), Peter S. Knight and Michael A. Pietrangelo were the members of the Compensation Committee in fiscal 2005 and the Transition Period. Effective as of March 13, 2006, Peter S. Knight resigned from the Compensation Committee and Arthur G. Altschul, Jr. was appointed to the Compensation Committee. The Compensation Committee met two times in fiscal 2005 and two times in the Transition Period. The Compensation Committee reviews and establishes the compensation of Medicis senior executives, including the Chief Executive Officer, on an annual basis, has direct access to third party compensation consultants, and administers Medicis stock option plans, including the review and grant of stock options to all eligible employees under Medicis stock option plans. The Compensation Committee has delegated to a sub-committee, comprised of Jonah Shacknai and Mark Prygocki, the authority to grant a limited number of awards to consultants and employees who are not executive officers of Medicis.

Executive Committee

Medicis has a standing Executive Committee. Michael A. Pietrangelo (Chairman), Jonah Shacknai and Spencer Davidson were the members of the Executive Committee during fiscal 2005 and the Transition Period. The Executive Committee consults informally on business issues periodically throughout the year. The Executive Committee is authorized to exercise the rights, powers and authority of the Medicis board of directors between board meetings.

Compensation of Directors

The Compensation Committee sets the compensation of all directors in accordance with the Compensation Committee Charter. The Company believes that compensation for non-employee directors should be competitive and should encourage increased ownership of the Company s stock through the payment of a portion of director compensation in Company stock, deferred compensation stock equivalents or options to purchase the Company s stock.

The Company s executive officers do not receive additional compensation for their service as directors. Prior to September 30, 2005, non-employee directors were paid $1,000 plus reasonable expenses for each

Board and committee meeting attended, excluding telephonic meetings. They also participated in our stock option plans, under which they received an automatic annual stock option grant of 21,000 shares of Class A common stock, the last grant being made on September 30, 2004.

Effective September 30, 2005, the Board of Directors of the Company adopted a new compensation arrangement applicable to non-employee directors of the Company, which replaced the compensation arrangement discussed above. The new compensation arrangement is as follows:

Each non-employee director shall receive an annual retainer fee of $25,000;

Each non-employee director shall receive an annual stock option grant to purchase 15,000 shares of the Company s Class A common stock;

The Chairperson of the Audit Committee of the Board shall receive an additional annual retainer fee of $15,000;

The Chairperson of any other committee of the Board shall receive an additional annual retainer fee of $5,000; and

Each member of the Audit Committee (excluding the Chairperson) shall receive an additional annual retainer fee of $5,000.

The compensation arrangement was adopted following the recommendation of the Compensation Committee of the Board of Directors and was in accordance with guidelines established by an independent consulting firm. In connection with the foregoing, on September 30, 2005, the Company s Board adopted an amendment to the 1998 Plan to reduce the number of options to purchase shares of the Company s Class A common stock automatically granted to non-employee directors on September 30 of each year from 21,000 shares to 15,000 shares. Pursuant to the new compensation arrangement, on September 30, 2005, each non-employee director was granted options to purchase 15,000 shares of the Company s Common Stock at an exercise price per share of $32.56, representing the fair market value on the date of grant. The options granted to the non-employee directors vest in full on the first anniversary of the date of grant, and have a ten year term, subject to earlier termination in the event of a termination of service on the Board. If the stockholders approve the Medicis 2006 Incentive Award Plan at this annual meeting, then the annual option grants to the non-employee directors will be made pursuant to such new plan. In light of the Company adopting a new fiscal year end of December 31, the automatic option grants to non-employee directors will be made, for fiscal 2006, on September 29, 2006 covering one-half of the annual automatic grant (or 7,500 options), and for every succeeding fiscal year, on the date of the annual meeting of stockholders covering 15,000 options. In addition, the Board may substitute for all or part of the option grant shares of restricted stock or restricted stock units , in an amount that does not exceed the amount determined by awarding one share of restricted stock or one restricted stock unit for each 2 automatic option shares being replaced. Any such restricted stock awards or restricted stock unit awards will vest on the same terms as the options. See Proposal 2 APPROVAL OF THE MEDICIS 2006 INCENTIVE AWARD PLAN.

On October 19, 2005, the Company and Michael A. Pietrangelo, a director of the Company, entered into a Termination Agreement terminating (without further consideration) a consulting agreement dated November 5, 1997 between the Company and Mr. Pietrangelo (the Consulting Agreement) effective September 30, 2005. The Consulting Agreement provided that Mr. Pietrangelo would assist and consult with the Company in areas relating to the pharmaceutical industries, and be available for consultation for a minimum of four hours per month, for a monthly consulting fee of $3,333. During the period of his consulting arrangement, Mr. Pietrangelo also received health and life insurance benefits from the Company, at an incremental cost to the Company of approximately $1,000 per month. The consulting arrangement and these benefits were terminated effective September 30, 2005.

Table of Contents

ITEM 2
APPROVAL OF THE MEDICIS
2006 INCENTIVE AWARD PLAN

Our stockholders are being asked to approve the Medicis 2006 Incentive Award Plan (the 2006 Plan). On April 5, 2006, our Board approved and adopted the 2006 Plan, subject to approval by our stockholders. In approving the 2006 Plan, the stockholders are not being asked to increase the number of shares that may be issued as equity awards by Medicis. The number of shares that may be issued under the 2006 Plan will be equal to the number of shares available for issuance under all active, existing prior equity plans of Medicis (the Prior Plans) as of the date of this annual meeting, plus an additional number of shares resulting from the cancellation or termination of outstanding awards under the Prior Plans. Effective as of the stockholder approval of the 2006 Plan, all Prior Plans shall be terminated as to future awards. Thus, all future awards will be made under the 2006 Plan.

On March 30, 2006, there were 862,501 shares remaining available for grant under the Prior Plans and 14,625,048 shares subject to outstanding awards granted under the Prior Plans. As a result, as of the date of the annual meeting, there will be approximately 862,501 shares available for issuance under the 2006 Plan (subject to any grants or cancellations under the Prior Plans between March 30, 2006 and the date of the annual meeting). As and to the extent any of the outstanding options or other awards that were granted under the Prior Plans are cancelled or expire after the annual meeting date, such shares will become available for issuance under the 2006 Plan, subject to an aggregate limit of 5,000,000 shares that may be issued under the 2006 Plan If the stockholders do not approve the 2006 Plan, the 2006 Plan will not become effective and no awards will be made under the 2006 Plan and the Prior Plans will remain in effect and the Company may grant additional awards under the Prior Plans.

The principal features of the 2006 Plan are summarized below, but the summary is qualified in its entirety by reference to the 2006 Plan itself which is attached to this proxy statement as Appendix A. We encourage you to read the 2006 Plan carefully.

Purpose of the 2006 Plan

The purpose of the 2006 Plan is to consolidate the Prior Plans into one incentive plan without increasing the underlying equity and to provide additional incentive for directors, key employees and consultants to further the growth, development and financial success of the Company and its subsidiaries by personally benefiting through the ownership of the Company s Common Stock, or other rights which recognize such growth, development and financial success. Our Board also believes that the 2006 Plan will enable us to obtain and retain the services of directors, key employees and consultants that are considered essential to our long range success by offering them an opportunity to own stock and other rights that reflect our financial success. The 2006 Plan is also designed to permit us to make cash and equity based awards intended to qualify as performance-based compensation under Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code).

Upon stockholder approval of the 2006 Plan, all of the Prior Plans will be terminated as to future awards, enabling us to use one plan for all future awards, which plan we believe is best designed to provide the proper incentives for our employees, consultants and non-employee directors, will ensure our ability to make performance-based awards, and which meets the requirements of applicable law.

The 2006 Plan will become effective immediately upon stockholder approval at the Annual Meeting. All outstanding awards under the Prior Plans will continue to be governed by the Prior Plans, however all Prior Plans will be terminated as to future grants, effective as of the stockholder approval of this Item 2.

Securities Subject to the 2006 Plan

The maximum aggregate number of shares of Common Stock that may be issued or transferred pursuant to awards under the 2006 Plan is originally equal to the number of shares of Common Stock which as of the date of this annual meeting (the Effective Date) are available for future awards under the Prior Plans. As of

Table of Contents

March 30, 2006, 862,501 shares remained available for future awards under the Prior Plans. The Prior Plans are: the Medicis Pharmaceutical Corporation 1996 Stock Option Plan, the Medicis Pharmaceutical Corporation 1998 Stock Option Plan, the Medicis Pharmaceutical Corporation 2002 Stock Option Plan and the Medicis Pharmaceutical Corporation 2004 Stock Incentive Plan.

The number of shares of Common Stock available for issuance under the 2006 Plan will be reduced by two shares for each one share of Common Stock delivered in settlement of any full-value award, which is any award other than a stock option, stock appreciation right or other award for which the holder pays the intrinsic value.

In the event of any cancellation, termination, expiration or forfeiture of any award under any Prior Plan during the term of the 2006 Plan (including any shares of Common Stock that are surrendered by the holder or repurchased by the Company pursuant to the terms of the applicable award agreement at a price not greater than the original purchase price paid by the holder), the number of shares of Common Stock which may be issued or transferred pursuant to awards under the 2006 Plan will automatically be increased by one share for each share subject to such award at the time of cancellation, termination, expiration, forfeiture or repurchase, subject to an aggregate limit of 5,000,000 shares issuable under the 2006 Plan.

Similar replenishment provisions exist in the 2006 plan, such that to the extent that an award granted under the 2006 Plan terminates, expires or lapses for any reason, any shares subject to the award at such time will be available for future grants under the 2006 Plan. If any shares of restricted stock are surrendered by a participant or repurchased by the Company pursuant to the terms of the 2006 Plan, such shares also will be available for future grants under the 2006 Plan. The add back of shares due to the replenishment provisions of the 2006 Plan will be on a one share added back for each one stock option, stock appreciation right and other award for which the holder pays the intrinsic value that was granted under the 2006 Plan is subsequently terminated, expired, cancelled, forfeited or repurchased. For every other award granted under the 2006 Plan, that is for every full-value award granted under the 2006 Plan, that is expired, cancelled, forfeited or repurchased two shares will be made available for issuance under the 2006 Plan. In no event, however, will any shares of Common Stock again be available for future grants under the Plan if such action would cause an incentive stock option to fail to qualify as an incentive stock option under Section 422 of the Code.

To the extent permitted by applicable law or any exchange rule, shares issued in assumption of, or in substitution for, any outstanding awards of any entity acquired in any form of combination by the Company or any of its subsidiaries will not be counted against the shares available for issuance under the 2006 Plan.

The shares of Common Stock covered by the 2006 Plan may be treasury shares, authorized but unissued shares, or shares purchased in the open market. For purposes of the 2006 Plan, the fair market value of a share of Common Stock as of any given date will be the closing sales price for a share of Common Stock on such date or, if there is no closing sales price for the Common Stock on the date in question, the closing sales price for a share of Common Stock on the last preceding date for which such quotation exists, as reported on the New York Stock Exchange (the NYSE). The closing sales price for a share of Common Stock on March 30, 2006 was $32.75, as reported by the NYSE.

Eligibility

Our employees, consultants and non-employee directors are eligible to receive awards under the 2006 Plan. As of March 30, 2006, we had approximately 357 employees and consultants, and we currently have eight directors, seven of whom are non-employee directors. The administrator determines which of our employees, consultants and directors will be granted awards. No employee, non-employee director or consultant is entitled to participate in the 2006 Plan as a matter of right, nor does any such participation constitute assurance of continued employment or Board service. Except for awards granted to non-employee directors pursuant to the automatic grant provisions of the 2006 Plan, only those employees, non-employee directors and consultants who are selected to receive grants by the administrator may participate in the 2006 Plan.

Table of Contents

Awards Under the 2006 Plan

The 2006 Plan provides that the administrator may grant or issue stock options, stock appreciation rights (SARs), restricted stock, restricted stock units, deferred stock, dividend equivalents, performance awards and stock payments, or any combination thereof. Each award will be set forth in a separate agreement with the person receiving the award and will indicate the type, terms and conditions of the award.

Non-Qualified Stock Options. Non-qualified stock options (NQSOs) will provide for the right to purchase shares of Common Stock at a specified price not less than the fair market value for a share of Common Stock on the date of grant, and usually will become exercisable (in the discretion of the administrator) in one or more installments after the grant date, subject to the completion of the applicable vesting service period or the attainment of pre-established performance goals. NQSOs may be granted for any term specified by the administrator, but may not exceed ten years.

Incentive Stock Options. Incentive stock options (ISOs) will be designed to comply with the applicable provisions of the Code, and will be subject to certain restrictions contained in the Code. Among such restrictions, ISOs must have an exercise price not less than the fair market value of a share of Common Stock on the date of grant, may only be granted to employees, and must not be exercisable after a period of ten years measured from the date of grant. ISOs, however, may be subsequently modified to disqualify them from treatment as ISOs. The total fair market value of shares (determined as of the respective date or dates of grant) for which one or more options granted to any employee by the Company (including all options granted under the 2006 Plan and all other option plans of the Company or any parent or subsidiary corporation) may for the first time become exercisable as ISOs during any one calendar year shall not exceed the sum of $100,000. To the extent this limit is exceeded, the options granted will be NQSOs. In the case of an ISO granted to an individual who owns (or is deemed to own) more than 10% of the total combined voting power of all classes of stock of the Company or any parent or subsidiary corporation (a 10% Owner), the 2006 Plan provides that the exercise price of an ISO must be at least 110% of the fair market value of a share of Common Stock on the date of grant and the ISO must not be exercisable after a period of five years measured from the date of grant. Like NQSOs, ISOs usually will become exercisable (in the discretion of the administrator) in one or more installments after the grant date, subject to the completion of the applicable vesting service period or the attainment of pre-established performance goals.

Stock Appreciation Rights. Stock appreciation rights provide for the payment of an amount to the holder based upon increases in the price of our Common Stock over a set base price. The base price of any SAR granted under the 2006 Plan must be at least 100% of the fair market value of a share of Common Stock on the date of grant. SARs under the 2006 Plan will be settled in cash or shares of Common Stock, or in a combination of both, at the election of the administrator. SARs may be granted in connection with stock options or other awards, or separately.

Restricted Stock. Restricted stock may be issued at such price, if any, and may be made subject to such restrictions (including time vesting or satisfaction of performance goals), as may be determined by the administrator. Restricted stock typically may be repurchased by us at the original purchase price, if any, or forfeited, if the vesting conditions and other restrictions are not met. In general, restricted stock may not be sold, or otherwise hypothecated or transferred, until the vesting restrictions and other restrictions applicable to such shares are removed or expire. Recipients of restricted stock, unlike recipients of options or restricted stock units, generally will have voting rights and will receive dividends prior to the time when the restrictions lapse.

Deferred Stock Awards. Deferred stock may not be sold or otherwise hypothecated or transferred until issued. Deferred stock will not be issued until the deferred stock award has vested, and recipients of deferred stock generally will have no voting or dividend rights prior to the time when the vesting conditions are satisfied and the shares are issued. Deferred stock awards generally will be forfeited, and the underlying shares of deferred stock will not be issued, if the applicable vesting conditions and other restrictions are not met.

Restricted Stock Units. Restricted stock units entitle the holder to receive shares of Common Stock, subject to the removal of restrictions which may include completion of the applicable vesting service period or the attainment of pre-established performance goals. The shares of Common Stock issued pursuant to restricted stock units may be delayed beyond the time at which the restricted stock units vest. Restricted stock units may not be sold, or otherwise hypothecated or transferred, and holders of restricted stock units do not have voting rights. Restricted stock units generally will be forfeited, and the underlying shares of stock will not be issued, if the applicable vesting conditions and other restrictions are not met.

Dividend Equivalents. Dividend equivalents represent the value of the dividends per share paid by us, if any, calculated with reference to a specified number of shares. Dividend equivalent rights may be granted alone or in connection with stock options, SARs or other equity awards granted to the participant under the 2006 Plan. Dividend equivalents may be paid in cash or shares of Common Stock, or in a combination of both, at the election of the administrator.

Performance Awards. Performance awards may be granted by the administrator to employees, consultants or non-employee directors based upon, among other things, the contributions, responsibilities and other compensation of the particular recipient. Generally, these awards will be based on specific performance goals and may be paid in cash or in shares of Common Stock, or in a combination of both, at the election of the administrator. Performance awards may include phantom stock awards that provide for payments based upon the value of our Common Stock. Performance awards may also include bonuses granted by the administrator, which may be payable in cash or in shares of Common Stock, or in a combination of both.

Stock Payments. Stock payments may be authorized by the administrator in the form of Common Stock or an option or other right to purchase Common Stock and may, without limitation, be issued as part of a deferred compensation arrangement in lieu of all or any part of compensation including, without limitation, salary, bonuses, commissions and directors fees that would otherwise be payable in cash to the employee, non-employee director or consultant.

Section 162(m) Performance-Based Awards. The administrator may designate employees as participants whose compensation for a given fiscal year may be subject to the limit on deductible compensation imposed by Section 162(m) of the Code. The administrator may grant to such persons stock options, SARs, restricted stock, restricted stock units, deferred stock, dividend equivalents, performance awards, cash bonuses and stock payments that are paid, vest or become exercisable upon the achievement of specified performance goals which are related to one or more of the following performance criteria, as applicable to the Company or any subsidiary, division, operating unit or individual:

net earnings (either before or after interest, taxes, depreciation and/or amortization);

gross or net sales or revenue;

net income (either before or after taxes);

operating earnings;

cash flow (including, but not limited to, operating cash flow and free cash flow);

return on assets;

return on capital;

return on stockholders equity;

return on sales;

gross or net profit or operating margin;

costs;

funds from operations;