

MEDICIS PHARMACEUTICAL CORP

Form DEF 14A

October 25, 2002

Table of Contents

SCHEDULE 14A INFORMATION

**Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to 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)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11

(1) Title of each class of securities to which transaction applies:

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

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5)

Edgar Filing: MEDICIS PHARMACEUTICAL CORP - Form DEF 14A

Total fee paid:

- Fee paid previously by written preliminary materials.
- Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Table of Contents

**NOTICE OF
2002 ANNUAL MEETING OF SHAREHOLDERS
November 20, 2002**

Dear Fellow Shareholder:

You are cordially invited to attend the 2002 Annual Meeting of Shareholders of Medicis Pharmaceutical Corporation. The meeting will be held at The Phoenician, 6000 East Camelback Road, Scottsdale, Arizona, on Wednesday, November 20, 2002. The meeting will begin at 9:30 a.m. local time. Our Board of Directors called this meeting for the following purposes:

1. To elect three directors for a term of three years;
2. To ratify the appointment of Ernst & Young LLP as independent auditors for our fiscal year ending June 30, 2003; and
3. To transact such other business as may properly come before the meeting and any adjournments. We are currently unaware of any additional business to be presented at the meeting.

You must own shares at the close of business on October 14, 2002 to vote at the meeting.

In order that your shares may be represented at the meeting in case you are not personally present, please complete, sign and date the enclosed proxy/voting card and return it as soon as possible in the enclosed addressed envelope. If you attend the meeting, you may vote your shares in person, even if you have signed and returned the proxy card.

Sincerely,

/s/ Mark A. Prygocki, Sr.

Mark A. Prygocki, Sr.
Executive Vice President,
Chief Financial Officer,
Corporate Secretary and
Treasurer October 18, 2002

Table of Contents

PROXY STATEMENT

**ANNUAL MEETING OF SHAREHOLDERS
November 20, 2002**

The annual meeting of shareholders of Medicis Pharmaceutical Corporation (Medicis or the Company) will be held on Wednesday, November 20, 2002, at 9:30 a.m. local time, at The Phoenician, 6000 East Camelback Road, Scottsdale, Arizona. This proxy statement and the accompanying form of proxy is being mailed beginning October 22, 2002 in connection with the solicitation of proxies by the Board of Directors for use at the annual meeting.

Medicis will bear the cost of soliciting the proxies, including the charges and expenses of brokerage firms and others that forward the proxy material to beneficial owners of our stock. Proxies may be solicited by mail, facsimile, telephone, e-mail or personal communications.

The close of business on October 14, 2002, has been fixed as the record date for the annual meeting. If you were a shareholder at that time, you are entitled to notice and may vote at the meeting. On the record date, we had 30,917,504 shares of Class A common stock and 379,016 shares of Class B common stock outstanding. Each share of Class A common stock outstanding on the record date is entitled to one vote on each matter of business considered at the meeting. Each share of Class B common stock outstanding on the record date is entitled to ten votes on each matter of business considered at the meeting. A majority of the voting power of the outstanding capital stock entitled to vote at the meeting shall constitute a quorum. If you want to vote in person at the annual meeting, and you hold your Medicis stock through a securities broker (that is, in street name), you must obtain a proxy from your broker and bring that proxy to the meeting.

Unless you tell us on your proxy card to vote differently, we will vote FOR

- (i) the director nominees named in this proxy statement; and
- (ii) the appointment of Ernst & Young LLP as independent auditors.

You may revoke your proxy by sending in a new proxy card with a later date or by sending written notice of revocation to our corporate secretary at the address in the paragraph below. If you attend the meeting, you may revoke in writing previously submitted proxies and vote in person.

Our headquarter offices are located at 8125 North Hayden Road, Scottsdale, Arizona 85258-2463.

TABLE OF CONTENTS

PROPOSAL 1: ELECTION OF DIRECTORS

DIRECTORS, DIRECTOR NOMINEES AND EXECUTIVE OFFICERS

Committees and Meetings

Director Compensation

PROPOSAL 2: RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS

AUDIT COMMITTEE REPORT

EXECUTIVE COMPENSATION

Summary Compensation Table

STOCK OPTIONS

Options Granted in the Last Fiscal Year

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values

Equity Compensation Plan Information⁽¹⁾

STOCK OPTION AND COMPENSATION COMMITTEE REPORT

Stock Price Performance

PRINCIPAL SHAREHOLDERS AND SHAREHOLDINGS OF MANAGEMENT

EXECUTIVE EMPLOYMENT AGREEMENTS AND OTHER RELATIONSHIPS

Executive Retention Plan

Senior Executive Restricted Stock Plan

Compensation Committee Interlocks and Insider Participation

Employment Agreement

OTHER MATTERS

Shareholder Proposals

Voting Rights and Revocability of Proxies

Annual Report and Annual Report on Form 10-K

Other Matters

Table of Contents

TABLE OF CONTENTS

	<u>Page</u>
PROPOSAL 1: ELECTION OF DIRECTORS	3
DIRECTORS,	
DIRECTOR NOMINEES	
AND EXECUTIVE	
OFFICERS	
3	
Committees and Meetings	
6	
Director Compensation	
7	
PROPOSAL 2:	
RATIFICATION OF	
APPOINTMENT OF	
INDEPENDENT	
AUDITORS	
7	
AUDIT COMMITTEE	
REPORT	
8	
EXECUTIVE	
COMPENSATION	
9	
Summary Compensation	
Table	
9	
STOCK OPTIONS	
10	
Options Granted in the	
Last Fiscal Year	
10	
Aggregated Option	
Exercises in Last Fiscal	
Year and Fiscal Year-End	
Option Values	
11	
Equity Compensation	
Plan Information	
11	
STOCK OPTION AND	
COMPENSATION	
COMMITTEE REPORT	
12	
Stock Price Performance	
13	
Section 16(a) Beneficial	
Ownership Reporting	
Compliance	
14	
PRINCIPAL	
SHAREHOLDERS AND	
SHAREHOLDINGS OF	
MANAGEMENT	
15	

EXECUTIVE EMPLOYMENT AGREEMENTS AND OTHER RELATIONSHIPS	16
Executive Retention Plan	16
Senior Executive Restricted Stock Plan	16
Compensation Committee Interlocks and Insider Participation	17
Employment Agreement	17
OTHER MATTERS	18
Shareholder Proposals	18
Voting Rights and Revocability of Proxies	18
Annual Report and Annual Report on Form 10-K	18
Other Matters	19

Table of Contents**PROPOSAL 1: ELECTION OF DIRECTORS**

At the meeting, three directors will be elected to serve a three-year term, which is scheduled to expire at the close of our annual meeting in 2005. The shares represented by the enclosed proxy will be voted to elect as a director the nominees named below, unless a vote is withheld for an individual nominee. If a nominee cannot or will not serve as a director (which events are not anticipated), the shares represented by the enclosed proxy may be voted for another person as determined by the holder of the proxies.

Board Structure

Our Board of Directors currently has seven members. The directors are divided into three classes. At each annual meeting, the term of one class expires. Directors in each class serve a term of three years.

Board Nominees

The Board of Directors has nominated Spencer Davidson and Peter S. Knight, Esq. for re-election as directors. The Board of Directors has also nominated Stuart Diamond for election as a director. Each director nominee would serve a three-year term expiring at the close of our 2005 annual meeting. Mr. Davidson and Mr. Knight are currently directors of Medicis. Biographical information on each of the three nominees is furnished below under Directors, Director Nominees and Executive Officers.

Vote Required

The three nominees receiving the highest number of votes cast at the meeting will be elected to serve for a term of three years, or until their successors are duly elected and qualified.

Board Recommendation

THE BOARD UNANIMOUSLY RECOMMENDS A VOTE FOR EACH OF THE
DIRECTOR NOMINEES SPECIFIED IN PROPOSAL 1.

DIRECTORS, DIRECTOR NOMINEES AND EXECUTIVE OFFICERS

The following biographical information is furnished with regard to the directors, the director nominees and the executive officers.

Name	Age	Position	Director Since	Term Expires
Jonah Shacknai(1)	45	Chairman and Chief Executive Officer and Director	1988	2004
Arthur G. Altschul, Jr.(2)				
38 Director 1992 2003 Spencer Davidson(1) (2) (3)	60	Director and Director Nominee 1999 2002		
Stuart Diamond(2)	41	Director Nominee		
Peter S. Knight, Esq.(3)	51	Director and Director Nominee 1997 2002		
Michael A. Pietrangelo(1)(3)				
60 Director 1990 2004 Philip S. Schein, M.D.(2)	63	Director 1990 2003		
Lottie H. Shackelford(2)				
61 Director 1993 2004 Joseph P. Cooper(4)	44	Executive Vice President, Business Development	N/A	N/A
Richard J. Havens	52	Executive Vice President,		

Edgar Filing: MEDICIS PHARMACEUTICAL CORP - Form DEF 14A

Sales and Marketing N/A N/A Mark A.
Prygocki, Sr. 36 Chief Financial Officer,
Executive Vice President, Corporate
Secretary and
Treasurer N/A N/A Mitchell S.
Wortzman, Ph.D. 52 Executive Vice
President, Research and
Development N/A N/A

(1) Member of the Executive Committee of the Board

(2) Member of
the Audit
Committee of
the

Board(3) Member
of the Stock
Option and
Compensation
Committee of
the

Board(4) On
October 16,
2002,

Mr. Cooper
tendered his
resignation to
the Company.
Mr. Cooper
expects to
remain with
the Company
through the
end of October
2002.

Table of Contents

Jonah Shacknai, founder, Chairman and Chief Executive Officer of Medicis Pharmaceutical Corporation, has an extremely well diversified corporate and public background. 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. In November 1999, Mr. Shacknai was selected to serve 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. Mr. Shacknai is 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 Center and a member of the Board of Trustees of the National Public Radio Foundation. In 1997, he received the Arizona Entrepreneur of the Year award, and was one of three national 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.

Arthur G. Altschul, Jr. has been a director since December 1992. He has worked in investment banking, venture capital and as a member of senior management of a publicly traded health care concern. Mr. Altschul is a founder and Managing Member of Diaz & Altschul Group, LLC, a private investment advisory firm. Between 1985 and 1991, 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. From 1992 to 1996, Mr. Altschul worked at SUGEN, Inc., most recently as Senior Director of Corporate Affairs. 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 offshore investment fund which invests primarily in the healthcare industry; ValiGen N.V., a European biotechnology company; the New York Council for Humanities and the Overbrook Foundation. Mr. Altschul holds a B.S. from Columbia University in Computer Science.

Spencer Davidson has been a director since January 1999. Mr. Davidson serves as President and Chief Executive Officer 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 as General Partner; and Odyssey Partners, where he served as Fund Manager. Additionally, Mr. Davidson acts 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 a M.B.A., a C.F.A. and a C.I.C.

Stuart Diamond has served as Chief Financial Officer of the Americas Region of the Bates Group and of Healthworld Corporation, divisions of Cordiant Communications plc, a London Stock Exchange listed company, since October 2002. He previously has 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. He was the Vice President and Chief Financial Officer of Fenway Partners, Inc., a leveraged buyout firm, from April 1995 to April 1996 and the Senior Vice President and Chief Financial Officer of Medicis Pharmaceutical Corp. from 1990 to 1995.

Table of Contents

Peter S. Knight, Esq. has been a director since June 1997. Mr. Knight is a Managing Director of MetWest Financial, a Los Angeles-based financial services company. 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 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 the company from 1989 to 1991 and then established his law practice representing numerous Fortune 500 companies as named partner in a Washington D.C. law firm. In 2000, he started Sage Venture Partners, an investment firm focusing on the technology and biotechnology sectors. 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, Whitman Education Group and Pharmaceutical Resources, Inc. He is also a director of Schrodgers' mutual fund and hedge fund family, a member of the board of Duke University's Terry Sanford Institute of Public Policy, 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.

Michael A. Pietrangelo has been a director since October 1990. Admitted to the bar in New York, Tennessee and the District of Columbia, he was an attorney with the Federal Trade Commission and later for Pfizer, Inc., from 1967 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. In 1994, he accepted a position as President of Johnson Products Company, a subsidiary of IVAX Corporation. He served in that capacity until February 1998, when he returned to the practice of law with Pietrangelo Cook PLC, based in Memphis, Tennessee.

Philip S. Schein, M.D. has been a director since October 1990. 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. Presently, he serves as President (USA), International Network for Cancer Treatment and Research, Adjunct Professor of Medicine and Pharmacology at the University of Pennsylvania School of Medicine and as President of The Schein Group. Dr. Schein serves on the board of directors of Targent.

Lottie H. Shackelford 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 director of Philander Smith College, the Chapman Funds in Baltimore, Maryland, and the Overseas Private Investment Corporation.

Joseph P. Cooper has served as Executive Vice President, Business Development since January 2001, prior to which he served as Senior Vice President, Manufacturing and Distribution for Medicis from February 1996 to 2001. Mr. Cooper served in a management position with Schein Pharmaceutical-Steris Laboratories, a subsidiary of Schein Pharmaceuticals, Inc., from August 1989 to February 1996. Mr. Cooper serves on the National Advisory Boards for the University of Arizona College of Pharmacy and the National Organization for Rare Disorders and has

Table of Contents

served since 1996 on the Board of Communities in Schools of Arizona, a national organization that works with at-risk children.

Richard J. Havens has served as Executive Vice President, Sales & Marketing since January 2001, prior to which he served as Senior Vice President, Sales and Marketing for Medicis from January 1999 to 2001. From 1982 to 1998, Mr. Havens was a senior marketing executive for Aventis (formerly Rhone-Poulenc Rorer Company), most recently in the company's dermatological division, Dermik Laboratories. He also held various sales positions with Warner-Lambert Company from 1974 to 1981. Mr. Havens serves on the Parents Advisory Board of Gettysburg College in Gettysburg, Pennsylvania.

Mark A. Prygocki, Sr. 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 Salomon Smith Barney, Inc., 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 Foothills Foundation and Whispering Hope Ranch, non-profit organizations that conduct programs for children and adults with special medical needs.

Mitchell S. Wortzman, Ph.D. has served as Executive Vice President, Research & Development since January 2001, prior to which he 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.

Committees and Meetings

The Board of Directors has a Stock Option and Compensation Committee, an Audit Committee and an Executive Committee.

The Stock Option and Compensation Committee administers our stock option plans and oversees the compensation of our officers. Messrs. Spencer Davidson, Peter S. Knight and Michael A. Pietrangelo were the members of the Stock Option and Compensation Committee in fiscal 2002. The Stock Option and Compensation Committee met once in fiscal 2002.

The Audit Committee reviews financial reporting, policies, procedures and internal controls of Medicis, recommends appointment of outside independent auditors and reviews related party transactions. Mr. Spencer Davidson, Mr. Arthur G. Altschul, Jr., Dr. Philip S. Schein and Ms. Lottie Shackelford were the members of the Audit Committee in fiscal 2002. The Audit Committee met four times in fiscal 2002.

The Executive Committee, which did not meet in fiscal 2002, exercises the rights, powers and authority of the Board of Directors between board meetings. Messrs. Jonah Shacknai, Michael A. Pietrangelo and Spencer Davidson were the members of the Executive Committee.

Medicis does not have a Nominating Committee; the entire Board of Directors considers nominations to serve as a member of the board.

The Board of Directors held four meetings in fiscal 2002. Each director attended at least 88% 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.

Table of Contents

Director Compensation

Outside directors are paid \$1,000 plus reasonable expenses for each board and committee meeting attended, excluding telephonic meetings. They also received an automatic annual stock option grant of 10,500 shares of Class A common stock on September 28, 2001. The options are granted at the fair market value of Class A common stock on the last business day of September and are exercisable on the one-year anniversary of the date of the grant. Each option grant has a term of ten years.

PROPOSAL 2: RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS

The Board of Directors, upon the recommendation of the Audit Committee, has reappointed Ernst & Young LLP, independent auditors, to audit the accounts of Medicis and its subsidiaries for the fiscal year ending June 30, 2003. We have been advised by Ernst & Young LLP that no member of that firm, to the best of its knowledge and belief, has any direct or any material indirect financial interest in Medicis or its subsidiaries, nor during the past three fiscal years has any member of the firm had any connection with Medicis or its subsidiaries in the capacity of promoter, underwriter, voting trustee, director, officer or employee.

Fees for the last annual audit were \$160,000 and all other fees were \$939,000, including audit-related services of \$394,000 and non-audit services of \$545,000. Audit-related services generally include fees for pension and statutory audits, business development opportunities, fees on our convertible bond offering, accounting consultations and review of Securities and Exchange Commission (SEC) registration statements. Non-audit services generally include fees for tax preparation, tax consultations and non-accounting consultations. Medicis did not engage Ernst & Young LLP to provide any information technology services during the fiscal year ended June 30, 2002. A representative of Ernst & Young LLP is expected to be present at the annual meeting, will have an opportunity to make a statement should he or she desire to do so and is expected to be available to respond to appropriate questions.

Vote Required

The proposal to ratify the appointment of Ernst & Young LLP as our independent auditors requires an affirmative vote of a majority of the voting power of the capital stock present at the meeting in person or represented by proxy. Notwithstanding ratification of the appointment of Ernst & Young LLP as our independent auditors for the fiscal year ending June 30, 2002, the Board of Directors or the Audit Committee may select other independent auditors for such year without any vote of the shareholders. If the shareholders do not ratify the appointment, the matter of the appointment of independent auditors will be considered by the Board of Directors and the Audit Committee.

Board Recommendation

THE BOARD UNANIMOUSLY RECOMMENDS A VOTE FOR PROPOSAL 2 TO RATIFY THE APPOINTMENT OF ERNST & YOUNG LLP AS INDEPENDENT AUDITORS.

Table of Contents

AUDIT COMMITTEE REPORT

In accordance with its written charter adopted by the Board of Directors, the Audit Committee is responsible for the oversight of the Company's financial reporting process on behalf of the Board of Directors. Management has the primary responsibility for the financial statements and the reporting process including the systems of internal controls. In fulfilling its oversight responsibilities, the Committee reviewed the audited financial statements in the Annual Report on Form 10-K with management, including a discussion of the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgment and the clarity of disclosures in the financial statements.

The Committee reviewed with the independent auditors, who are responsible for expressing an opinion on the conformity of those audited financial statements with generally accepted accounting principles, their judgments as to the quality, not just the acceptability, of the Company's accounting principles and such other matters as are required to be discussed with the Committee under generally accepted auditing standards. In addition, the Committee has discussed with the independent auditors the auditors' independence from management and the Company including the matters in the written disclosures required by the Independence Standards Board and considered the compatibility of non-audit services with the auditors' independence.

The Committee discussed with the Company's independent auditors the overall scope and plans for their audits. The Committee meets with the independent auditors, with and without management present, to discuss the results of their examinations, their evaluations of the Company's internal controls, and the overall quality of the Company's financial reporting. The Committee held four meetings during fiscal year 2002.

In reliance on the reviews and discussions referred to above, the Committee recommended to the Board of Directors (and the Board has approved) that the audited financial statements be included in the Annual Report on Form 10-K for the year ended June 30, 2002 for filing with the SEC. The Committee and the Board have also recommended, subject to shareholder approval, the selection of the Company's independent auditors, Ernst & Young LLP.

September 26, 2002
Spencer Davidson, Chairman
Arthur G. Altschul, Jr.
Philip S. Schein, M.D.
Lottie H. Shackelford

Audit Committee

Table of Contents**EXECUTIVE COMPENSATION**

This table shows the annual compensation and long-term compensation awards for each of the three most recent fiscal years for Medicis chief executive officer and the other executive officers whose salary and bonus exceeded \$100,000 during the fiscal year ended June 30, 2002.

Summary Compensation Table

Name and Position	Year	Long-Term Compensation Awards			
		Annual Compensation Salary (\$)	Annual Compensation Bonus (\$)	Restricted Stock Award (\$) ⁽²⁾	Number of LTIP Options ⁽¹⁾
Jonah Shacknai	2002	687,000	600,000	468,700	140,000
Chairman of the Board and 2001 660,000 550,000 Chief Executive Officer			200,000		
2000 600,000 440,000			200,000		
Joseph P. Cooper					
2002 230,000 220,000		468,700	28,000		
Executive Vice President, 2001 220,000 200,000			40,000		
Business Development 2000 200,000 175,000			40,000		
Richard J. Havens					
2002 235,000 310,000		468,700	31,500		
Executive Vice President, 2001 225,000 255,000			45,000		
Sales and Marketing 2000 205,000 200,000			33,000		
Mark A. Prygocki, Sr.					
2002 285,000 338,000		468,700	42,000		
Executive Vice President, 2001 275,000 255,000			60,000		
Chief Financial Officer, 2000 240,000 240,000			60,000		
Corporate Secretary and Treasurer					
Mitchell S. Wortzman, Ph.D.					
2002 271,000 200,000		468,700	31,500		
Executive Vice President, 2001 260,000 180,000			45,000		
Research and Development					

Edgar Filing: MEDICIS PHARMACEUTICAL CORP - Form DEF 14A

2000 240,000 165,000 45,000

(1) Fiscal 2002 options were granted in July 2001; fiscal 2001 options were granted in July 2000; fiscal 2000 options were granted in July 1999.

(2) At the end of fiscal 2002, Mr. Shacknai, Mr. Cooper, Mr. Havens, Mr. Prygocki and Mr. Wortzman each held 10,000 shares of restricted stock awards having a value of \$427,600, based on the market closing price of Medicis Class A common stock of \$42.76 on June 28, 2002. Restricted stock awards have no value to the recipient until the restrictions are released, which begins in fiscal 2005. See discussion on the Company's Senior Executive Restricted Stock Plan in Executive Employment Agreements and Other Relationships.

Medicis has no defined benefit or defined contribution retirement plans other than the Medicis Pharmaceutical Corporation 401(k) Employee Savings Plan established under Section 401(k) of the Internal Revenue Code of 1986, as amended. Contributions to the 401(k) plan are voluntary and all employees are eligible to participate. The 401(k) plan permits Medicis to match employee contributions, and the Company began making matching contributions in April 2002, at 50% of the first 3% of gross pay that each employee contributes to the plan.

Table of Contents**STOCK OPTIONS**

Medicis stock option plans provide for the grant of stock options to key employees and key consultants. Options may be either incentive stock options or non-qualified stock options. The plans are administered by the Stock Option and Compensation Committee appointed by the Board of Directors. This table sets forth certain information for our last fiscal year with respect to options to purchase shares of Class A common stock granted to Medicis chief executive officer and our other named executive officers pursuant to the stock option plans.

Options Granted in the Last Fiscal Year

Name	Number of Options Granted ⁽¹⁾	Percentage of Total Options Granted to Employees in Fiscal Year	Exercise Price (\$/sh)	Expiration Date	Potential Realized Value at Assumed Annual Rates of Stock Price Appreciation for Option Term ⁽²⁾		
					0% (\$)	5% (\$)	10% (\$)
Jonah Shacknai	140,000	9.3%	\$53.90	7/25/11		4,746,000	12,026,000
Joseph P. Cooper	28,000	1.9%	\$53.90	7/25/11	949,200	2,405,200	
Richard J. Havens	31,500	2.1%	\$53.90	7/25/11	1,067,850	2,705,850	
Mark A. Prygocki, Sr.	42,000	2.8%	\$53.90	7/25/11	1,423,800	3,607,800	
Mitchell S. Wortzman, Ph.D.	31,500	2.1%	\$53.90	7/25/11	1,067,850	2,705,850	

(1) Of Mr. Shacknai's options noted above, 46,667 vested on July 17, 2002; 46,667 vest on July 17, 2003; and 46,666 vest on July 17, 2004. Of Mr. Cooper's options noted above, 2,800 vested on July 17, 2002; 2,800 vest on July 17, 2003; 5,600 vest on July 17, 2004; 8,400 vest on July 17, 2005; and 8,400 vest on July 17, 2006. Of Mr. Haven's options noted above, 3,150 vested on July 17, 2002; 3,150 vest on July 17, 2003; 6,300 vest on July 17, 2004; 9,450 vest on July 17, 2005; and 9,450 vest on July 17, 2006. Of Mr. Prygocki's options noted above, 4,200 vested on July 17, 2002; 4,200 vest on July 17, 2003; 8,400 vest on July 17, 2004; 12,600 vest on July 17, 2005; and 12,600 vest on July 17, 2006. Of Dr. Wortzman's options noted above, 3,150 vested on July 17, 2002; 3,150 vest on July 17, 2003; 6,300 vest on July 17, 2004; 9,450 vest on July 17, 2005; and 9,450 vest on July 17, 2006.

(2) The potential realizable value portion of the table illustrates amounts that might be realized upon exercise of the options immediately prior to the expiration of their term, assuming the specified compounded annual rates of stock price

appreciation over the scheduled life of the options. This table does not take into account provisions of certain options providing for termination of the option following termination of employment, nontransferability or vesting schedules. The dollar amounts under these columns are the result of calculations at the 5% and 10% rates set by the SEC and are not intended to forecast possible future appreciation, if any, of our stock price. The column indicating 0% appreciation is included to reflect the fact that a zero percent gain in stock price appreciation from the market price of the Class A common stock on the date of grant will result in zero dollars for the optionee. No gain to the optionees is possible without an increase in stock price, which will benefit all shareholders commensurately. Dollar amounts shown are not discounted to present value.

During the last fiscal year, 287 employees and six non-employee directors were granted options to purchase an aggregate of 1,568,486 shares of Class A common stock under Medicis' stock option plans.

Table of Contents

This table shows all stock options exercised by the named executives during the fiscal year ended June 30, 2002, and the number and value of options they held at fiscal year end. The number of shares acquired on exercise does not necessarily represent the underlying shares sold.

**Aggregated Option Exercises in Last Fiscal Year
and Fiscal Year-End Option Values**

Name	Number of Shares Acquired on Exercise	Value Realized (\$)	Number of Unexercised Options at Fiscal Year End		Value of Unexercised In-the-Money Options at Fiscal Year End (\$) ⁽¹⁾	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Jonah Shacknai	8,257	379,905	345,209	340,002	5,696,950	1,384,007
Joseph P. Cooper	23,762	865,347	8,000	103,501	844,894	
Richard J. Havens	6,600	246,048	22,200	100,500	35,244	446,292
Mark A. Prygocki, Sr.	38,250	1,388,621	12,000	156,001	1,270,279	
Mitchell S. Wortzman, Ph.D.	36,000	121,501	466,020	1,010,089		

⁽¹⁾ Value of unexercised in-the-money options is calculated based on the market value of the underlying shares, minus the exercise price and assumes the sale of all the underlying shares on June 30, 2002, at a price of \$42.76, which was the closing price of the Class A common stock on the New York Stock Exchange on that date.

Equity Compensation Plan Information⁽¹⁾

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by security holders	5,567,803	\$ 42.15	1,140,632
Equity compensation plans not approved by security holders			

Total

5,567,803 \$42.15 1,140,632

⁽¹⁾ A description of Medicis' equity compensation plans and their material features is included in the Company's financial statements for the fiscal year ended June 30, 2002 filed on Form 10-K.

Table of Contents

STOCK OPTION AND COMPENSATION COMMITTEE REPORT

The Stock Option and Compensation Committee is responsible for the oversight of the compensation of our executive officers and administration of our stock option plans. Our executive officers' compensation is composed of salary, stock options and cash bonuses. Jonah Shacknai, our chairman and chief executive officer, recommends the annual salary and any cash bonus for each executive officer other than himself. In the case of an increase in salary or bonus to an executive officer, Mr. Shacknai makes a recommendation to this committee to approve the increase. Mr. Shacknai and the committee apply the largely subjective and non-quantitative criteria discussed below in evaluating compensation and have not assigned any particular numerical weight to these factors. The salary of an executive officer is determined by the significance of the position to our company, individual experience, talents and expertise, tenure with our company, cumulative contribution to our company's success, individual performance as it relates to effort and achievement of progress toward particular objectives for the executive officer and to Medicis' immediate and long-term goals, and information gathered as to comparable companies in the same industry as the Company. Due to Medicis' phase of growth and development, in addition to its goal of increasing profitability, other elements of performance that are used in structuring executive compensation levels are increases in revenues, new product introductions, progress in research and development, raising new capital if necessary, strategic alliances, customer service values, cost-effective operation and the personal commitment to Medicis' ideals and mission. This committee believes the compensation of our executive officers is generally in the middle section of the range of compensation data obtained when we gathered data as to comparable companies. However, this belief should be considered in light of the facts that the elements of compensation of such comparable companies are not necessarily directly comparable to those of our company. Although we do not have a formal bonus plan for executive officers, from time to time we award cash bonuses to certain executive officers after fiscal year end. The amount awarded to a particular executive officer is based upon Medicis' overall performance as described above, individual performance, the particular executive officer's base salary level, and overall equity and fairness.

We grant stock options to our executive officers to link the interests and risks of our executive officers with those of our shareholders. The executive officers granted options receive value as the price of our stock increases. We generally grant stock options to the executive officers after the close of the fiscal year. We base our decisions on Medicis' performance and the individual's performance as discussed above, base salary and bonus levels, the amount of prior option grants, length of service, and overall equity and fairness.

For fiscal 2002, Jonah Shacknai, chairman of the board and chief executive officer, received an annual salary of \$687,000, was paid a bonus of \$600,000, and was granted options to purchase 140,000 shares of Class A common stock in fiscal 2002 (at an exercise price of \$53.90 per share, which was the fair market value of Medicis shares on the date the options were granted). We made these decisions based upon a subjective analysis of his contributions to Medicis' improved performance in the most recent fiscal year, and the above noted criteria. The committee did not assign any particular numerical weight to any of these matters.

September 26, 2002
Spencer Davidson, Chairman Peter S.
Knight, Esq. Michael A. Pietrangelo

Stock Option and Compensation Committee

Table of Contents

Stock Price Performance

This graph shows a comparison of the cumulative total shareholder return for Medicis, the Nasdaq Stock Market (U.S. Companies) Total Return Index and the Nasdaq Pharmaceutical Stocks Total Return Index for the period commencing June 28, 1997 through June 30, 2002. The index used is the Center for Research in Security Prices (CRSP) Index. Medicis began trading on the New York Stock Exchange on September 24, 1998, under the ticker symbol MRX. Due to the move to the New York Stock Exchange, we provide a comparison of the NYSE (U.S. Companies) Total Return Index and the NYSE Pharmaceutical Stocks Total Return Index for the period commencing June 28, 1997 through June 30, 2002. Before the move to the New York Stock Exchange, our common stock traded on the Nasdaq National Market. The Nasdaq Stock Market Total Return Index comprises all domestic common shares traded on the Nasdaq National Market System and the Nasdaq Small-Cap MarketSM. The Nasdaq Pharmaceutical Stocks Index represents all companies, including biotechnology companies, trading on Nasdaq classified under the Standard Industrial Classification Code for pharmaceuticals. The NYSE Total Return Index comprises all domestic common shares traded on the NYSE. The NYSE Pharmaceutical Stocks Total Return Index represents all companies classified under the Standard Industrial Classification Code for pharmaceuticals.

⁽¹⁾ The lines represent monthly index levels derived from compounded daily returns that include all dividends. The indexes are reweighted daily, using the market capitalization on the previous trading day. If the end of the monthly interval, based upon the fiscal year end, is not a trading day, the preceding trading day is used. The index level for all series was set to 100.0 on June 30, 1997.

Table of Contents

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires our directors and executive officers, and persons who own more than 10% of a registered class of our securities, to file with the SEC initial reports of ownership and reports of changes in ownership of common stock and other equity securities of our company. These reports are also filed with the New York Stock Exchange. A copy of each report is furnished to Medicis.

SEC rules require Medicis to identify anyone who filed a required report late during the most recent fiscal year. Based solely on a review of reports furnished to Medicis and written representations that no other reports were required, we believe that during the year ended June 30, 2002, all Section 16(a) filing requirements were met except that Ms. Shackelford sold shares in December 2001 and filed the report in August 2002.

Table of Contents**PRINCIPAL SHAREHOLDERS AND SHAREHOLDINGS OF MANAGEMENT**

This table shows ownership of Medicis stock on October 9, 2002 by (i) each person known to Medicis to own beneficially five percent (5%) or more of Medicis capital stock, (ii) each director, director nominee and executive officer, and (iii) all directors, director nominees and executive officers as a group:

Name ⁽¹⁾	Shares Beneficially Owned		Percentage of Outstanding Capital Stock	Percentage of Voting Power
	Class A Common Stock	Class B Common Stock		
Jonah Shacknai ⁽²⁾	558,732	379,016	3.41%	13.90%
Arthur G. Altschul, Jr. ⁽³⁾	25,500	* *		
Spencer Davidson ⁽⁴⁾	25,500	* *		
Stuart Diamond ⁽⁵⁾	* *			
Peter S. Knight, Esq. ⁽⁶⁾	38,937	* *		
Michael A. Pietrangelo ⁽⁷⁾	90,288	* *		
Philip S. Schein, M.D. ⁽⁸⁾	25,500	* *		
Lottie H. Shackelford ⁽⁹⁾	64,061	* *		
Joseph P. Cooper ⁽¹⁰⁾	38,800	* *		
Richard J. Havens ⁽¹¹⁾	40,950	* *		
Mark A. Prygocki, Sr. ⁽¹²⁾	67,087	* *		
Mitchell S. Wortzman, Ph.D. ⁽¹³⁾	85,075	* *		

All executive officers and directors
 1,060,430 379,016 5.15% 15.28%
 (including nominees) as a group (12
 persons)⁽¹⁴⁾

AIM Management Group, Inc.
 3,852,683 12.51% 11.00%
 11 Greenway Plaza
 Suite 100
 Houston, TX 77046⁽¹⁵⁾

Edgar Filing: MEDICIS PHARMACEUTICAL CORP - Form DEF 14A

Putnam Investments, Inc.
2,729,159 9.19% 8.05%
One Post Office Square

Boston, MA 02109⁽¹⁶⁾

Capital Research & Management Co.
1,635,800 5.72% 4.98%
333 South Hope St

Los Angeles, CA 90071⁽¹⁷⁾

* Less than 1%.

⁽¹⁾ The address of each beneficial owner is c/o Medicis Pharmaceutical Corporation, 8125 North Hayden Road, Scottsdale, Arizona 85258-2463, unless otherwise indicated.⁽²⁾ Includes 525,210 shares of Class A common stock subject to options granted pursuant to stock option plans which were exercisable as of October 9, 2002, or which become exercisable within 60 days thereafter (December 9, 2002).⁽³⁾ Includes 25,500 shares of Class A common stock subject to options granted pursuant to stock option plans which were exercisable as of October 9, 2002, or which become

exercisable
within 60 days
thereafter
(December 9,
2002).⁽⁴⁾ Includes
25,500 shares
of Class A
common stock
subject to
options granted
pursuant to
stock option
plans which
were
exercisable as
of October 9,
2002, or which
become
exercisable
within 60 days
thereafter
(December 9,
2002).

Table of Contents

(5) Includes 0 shares of Class A common stock subject to options granted pursuant to stock option plans which were exercisable as of October 9, 2002, or which become exercisable within 60 days thereafter (December 9, 2002).

(6) Includes 36,750 shares of Class A common stock subject to options granted pursuant to stock option plans which were exercisable as of October 9, 2002, or which become exercisable within 60 days thereafter (December 9, 2002).⁽⁷⁾ Includes 65,232 shares of Class A common stock subject to options granted pursuant to stock option plans which were exercisable as of October 9, 2002, or which become exercisable within 60 days thereafter (December 9, 2002).⁽⁸⁾ Includes 25,500 shares of Class A common stock subject to options granted pursuant to stock option plans which were exercisable as of October 9, 2002, or which become exercisable within 60 days thereafter (December 9, 2002).⁽⁹⁾ Includes 61,232 shares of Class A common stock

subject to
options granted
pursuant to
stock option
plans which
were
exercisable as
of October 9,
2002, or which
become
exercisable
within 60 days
thereafter
(December 9,
2002).⁽¹⁰⁾ Includes
38,800 shares
of Class A
common stock
subject to
options granted
pursuant to
stock option
plans which
were
exercisable as
of October 9,
2002, or which
become
exercisable
within 60 days
thereafter
(December 9,
2002).⁽¹¹⁾ Includes
40,950 shares
of Class A
common stock
subject to
options granted
pursuant to
stock option
plans which
were
exercisable as
of October 9,
2002, or which
become
exercisable
within 60 days
thereafter
(December 9,
2002).⁽¹²⁾ Includes
59,700 shares
of Class A
common stock
subject to
options granted
pursuant to
stock option
plans which
were
exercisable as
of October 9,

2002, or which become exercisable within 60 days thereafter (December 9, 2002).⁽¹³⁾ Includes 75,150 shares of Class A common stock subject to options granted pursuant to stock option plans which were exercisable as of October 9, 2002, or which become exercisable within 60 days thereafter (December 9, 2002).⁽¹⁴⁾ Includes an aggregate of 979,524 shares of Class A common stock subject to options granted pursuant to stock option plans which were exercisable as of October 9, 2002, or which become exercisable within 60 days thereafter (December 9, 2002) held by twelve executive officers, directors and director nominees.⁽¹⁵⁾ In a filing with the SEC on Schedule 13G, dated February 6, 2002, AIM Management Group, Inc. on behalf of itself and its wholly-owned subsidiaries,

AIM Advisors,
Inc. and AIM
Capital
Management,
Inc. reported
sole dispositive
power of
3,852,683
shares of
common stock
and sole voting
power of
3,852,683
shares of
common stock.
The foregoing
information is
based solely on
a review of the
referenced
Schedule 13G.⁽¹⁶⁾ In
a filing with
the SEC on
Schedule 13G,
dated
February 13,
2002, Putnam
Investments,
LLC reported
shared
dispositive
power with
respect to
2,729,159
shares of
common stock
and shared
voting power
with respect to
123,136 shares
of common
stock. Putnam
Investment
Management,
LLC reported
shared
dispositive
power as to
2,516,218
shares of
common stock.
The Putnam
Advisory
Company,
LLC reported
shared
dispositive
power as to
212,941 shares
of common
stock and
shared voting

power as to 123,136 shares of common stock. Marsh & McLennan Companies, Inc., Putnam Investment's parent holding company, reported no shared dispositive power and no shared voting power. The foregoing information is based solely on a review of the referenced Schedule 13G.⁽¹⁷⁾ In a filing with the SEC on Schedule 13G, dated February 11, 2002, Capital Research and Management Company reported sole dispositive power of 1,635,800 shares of common stock. The foregoing information is based solely on a review of the referenced Schedule 13G.

EXECUTIVE EMPLOYMENT AGREEMENTS AND OTHER RELATIONSHIPS

Executive Retention Plan

On March 2, 1999, the Board of Directors authorized and adopted the Medicis Pharmaceutical Corporation Executive Retention Plan, effective on April 1, 1999. The purpose of the retention plan is to facilitate the exercise of best judgment and improve the recruitment and retention of key employees by Medicis. Pursuant to the retention plan, certain key employees will receive a Benefit Allowance upon an Involuntary Termination other than for Good Cause in connection with a Change in Control, as each term is defined in the retention plan. Upon a Change in Control, persons who report directly to the chief executive officer and such others as may be designated by the chief executive officer receive a Benefit Allowance of two times salary and bonus, and insurance and retirement benefit payments for two years, and certain other key employees designated by the chief executive officer receive a Benefit Allowance of one times salary and bonus, and insurance and retirement benefit payments for one year.

Senior Executive Restricted Stock Plan

On July 24, 2001, the Company granted 55,000 restricted shares of its Class A common stock under the Company's 2001 Senior Executive Restricted Stock Plan. The shares begin vesting on the third anniversary of the grant date, and become fully vested on the fifth anniversary of the

grant date. Under terms of the grants, holders of the restricted shares can exercise all rights of a shareholder, but cannot transfer, sell, pledge, hypothecate or assign

Table of Contents

any of the restricted shares until they have vested. Any restricted shares not vested at the time of voluntary termination or termination for cause shall be forfeited to the Company.

Compensation Committee Interlocks and Insider Participation

During the fiscal year ended June 30, 2002, the stock option and compensation committee of the Board of Directors consisted of Spencer Davidson, Peter S. Knight and Michael A. Pietrangelo, all of whom are non-employee directors. No member of the compensation committee has a relationship that would constitute an interlocking relationship with executive officers or directors of another entity.

Employment Agreement

In July 1996, Medicis entered into an employment agreement with Mr. Shacknai, effective July 1, 1996, to continue to serve as chairman and chief executive officer. The agreement was amended in February 2001, renewing the agreement for a five-year period commencing on July 1, 2001 and expiring on June 30, 2006. The agreement automatically renews for successive periods of five years, unless either party gives timely notice of an intention not to renew. Mr. Shacknai also may terminate the employment agreement prior to the end of the term. Under the agreement, Mr. Shacknai agreed that, during his employment, and for a period of one year following termination for reasons other than a change in ownership or control of Medicis, he will not engage in, consult with or be employed by any Competing Business (as defined in the employment agreement). The agreement contains customary non-solicitation provisions and provides for the transfer to Medicis of any intellectual property relating to its business.

Under the agreement, Mr. Shacknai receives an annual base salary of \$400,000, effective July 1996, plus certain benefits and an annual grant of options to purchase shares of common stock representing a minimum specified percentage of the fully diluted capitalization of Medicis. He is also eligible for annual cash bonuses and increases in his base compensation.

The agreement provides that, if Mr. Shacknai's employment is terminated as a result of a change in control, Medicis will pay him a lump sum amount equal to four times the sum of (i) his base salary at the highest rate in effect during the preceding 12 months and (ii) the average annual bonus, if any, paid during the preceding three years. If Mr. Shacknai's employment is terminated without cause or by his Resignation for Good Reason (as defined in the agreement), Medicis will pay him a lump sum equal to the sum of (i) the amount he would have collected in salary for the unexpired term of the agreement, were he paid at the highest salary rate in effect for the 12 months preceding his termination, and (ii) his average annual bonus for the preceding three years multiplied by the number of years remaining in the agreement. In no event, however, will Mr. Shacknai's severance payment for termination without cause be less than twice the sum of (i) his highest effective salary and (ii) the average annual bonus for the preceding three years, plus 1/24 of such lump sum for each full year of Mr. Shacknai's service with Medicis. If Mr. Shacknai's employment is terminated by his death, the agreement provides that Medicis will continue to pay his salary, at the then-current rate, to his estate for 12 months. If Mr. Shacknai is terminated pursuant to his Disability (as defined in the agreement), Medicis will pay him 100% of his base salary for 12 months, and 50% of that base salary for the remainder of the term of the agreement, but in no event for less than an additional 12 months of his base salary. Finally, the agreement provides that, if it is not renewed by Medicis for at least three years after its initial expiration, Medicis must pay Mr. Shacknai a lump sum equal to twice the sum of (i) his annual base salary at the highest rate in effect during his last 12 months of employment and (ii) the annual average of bonus payments made to him over the preceding three years, plus 1/24 of such lump sum for each full year of Mr. Shacknai's service with Medicis.

Upon the termination of Mr. Shacknai's employment, all options previously granted to him will automatically vest and will remain exercisable for their full term. After termination, Mr. Shacknai will also receive the employee benefits he was eligible to participate in for four years, unless the agreement is not renewed, in which event he will receive those benefits for two years. Under certain circumstances, the agreement may require Medicis to make payments that would constitute excess parachute payments under the Internal Revenue Code of 1986, as amended. If Medicis makes excess parachute payments to Mr. Shacknai, those payments would not be deductible by Medicis for tax purposes, and Mr. Shacknai would be required to pay an excise tax.

Medicis currently has no employment agreements with other employees.

Table of Contents

OTHER MATTERS

Shareholder Proposals

Any shareholder proposal that is intended to be presented at the 2003 annual meeting and included in Medicis proxy statement relating to that meeting, must be received at our principal offices no later than June 9, 2003.

In order for a shareholder to bring other business before our 2003 annual shareholders meeting, timely notice must be received by us at our principal offices between the dates of June 26, 2003 and July 26, 2003. This notice must include a description of the proposed business, the reasons for this proposed business, and other specified matters. These requirements are separate from and in addition to the requirements a shareholder must meet to have a proposal included in our proxy statement. The time limit also applies in determining whether notice is timely for purposes of rules adopted by the SEC relating to the exercise of discretionary voting authority.

The address of our principal offices is 8125 North Hayden Road, Scottsdale, Arizona 85258-2463.

Voting Rights and Revocability of Proxies

A majority of the outstanding shares of capital stock on the record date will constitute a quorum for the annual meeting. Shares may be represented at the meeting in person or by proxy.

Votes will be tabulated by the inspector of election appointed for the meeting. The inspector of election will separately tabulate affirmative and negative votes, abstentions and broker non-votes. Under Medicis bylaws and Delaware law: (1) shares represented by proxies that reflect abstentions or broker non-votes will be counted as shares that are present for purposes of determining the presence of a quorum; (2) there is no cumulative voting, and the three director nominees receiving the highest number of votes are elected and, accordingly, abstentions, broker non-votes and withholding of authority to vote will not affect the election of directors; (3) proxies that reflect abstentions as to a particular proposal will be treated as voted for purposes of determining the approval of that proposal and will have the same effect as a vote against that proposal; and (4) proxies that reflect broker non-votes will be treated as unvoted and will not be counted for or against a proposal.

Any person giving a proxy pursuant to this solicitation has the power to revoke it at any time before it is voted. A proxy may be revoked by sending to the Corporate Secretary, at 8125 North Hayden Road, Scottsdale, Arizona 85258-2463, a written notice of revocation or a duly executed proxy bearing a later date, or a proxy may be revoked by attending the annual meeting and voting in person. Attendance at the meeting will not, by itself, revoke a proxy.

Annual Report and Annual Report on Form 10-K

Medicis annual report for fiscal 2002 and Medicis annual report on Form 10-K for fiscal 2002 is being mailed to shareholders together with this proxy statement.

Table of Contents

Other Matters

The Board of Directors does not know of any other matters that are to be presented for action at the annual meeting. If any other matters come before the meeting, the persons named in the enclosed proxy will have the discretionary authority to vote all proxies received with regard to those matters in accordance with their best judgment.

MEDICIS PHARMACEUTICAL CORPORATION

/s/ Mark A. Prygocki, Sr. Mark A.
Prygocki, Sr. Executive Vice President,
Chief Financial Officer, Corporate
Secretary and Treasurer October 18,
2002

**SHAREHOLDERS ARE URGED TO DATE AND SIGN THE ENCLOSED PROXY AND RETURN IT IN
THE ENCLOSED ENVELOPE.**

Table of Contents

**PROXY SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS
FOR 2002 ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD ON NOVEMBER 20, 2002**

The undersigned hereby constitutes and appoints Jonah Shacknai and Mark A. Prygocki Sr., and each of them, proxies and attorneys-in-fact, with full power to each of substitution, on behalf and in the name of the undersigned, to represent the undersigned at the 2002 Annual Meeting of Shareholders of MEDICIS PHARMACEUTICAL CORPORATION (Medicis), to be held on November 20, 2002 and at any adjournment or postponement thereof. This proxy, when properly executed and returned in a timely manner, will be voted at this annual meeting and any adjournment or postponement thereof in the manner described herein. If no contrary indication is made, the proxy will be voted FOR Proposal 1, the election of the director nominees named herein, and FOR Proposal 2, ratification of appointment of independent auditors, and as to all other matters which may come before the meeting in accordance with the judgment of the persons named as proxies herein.

PLEASE MARK, SIGN, DATE AND MAIL THE PROXY CARD PROMPTLY USING THE ENCLOSED ENVELOPE.

(Continued, and to be signed and dated, on reverse side.)

Table of Contents

The undersigned hereby directs this proxy to be voted as follows:

PLEASE MARK YOUR
VOTES IN THE
FOLLOWING MANNER,
USING DARK INK

ONLY: x
FOR ALL NOMINEES

(except as written to the
contrary

below) WITHHOLD
ALL

NOMINEES Proposal 1:
Election of Directors.

Nominees: Spencer
Davidson;

Stuart

Diamond;

Peter S.

Knight, Esq.

FOR, except vote
withheld from the following
nominee(s): _____

FOR AGAINST ABSTAIN Proposal

2: to ratify the appointment
of Ernst &
Young LLP as independent
auditors.

At the proxies' discretion
on any other matters
which may properly come
before the meeting or
any adjournment or
postponement thereof.

Dated: _____, 2002.

Signature(s): _____

This proxy should be dated, signed by the shareholder(s) exactly as his or her name appears herein, and returned promptly in the enclosed envelope. Persons signing in a fiduciary capacity should so indicate, if shares are held by joint tenants or as community property, both shareholders should sign.