

MEDICIS PHARMACEUTICAL CORP

Form 11-K

June 30, 2008

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 11-K**

**x ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**For the fiscal year ended: December 31, 2007**

**TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934 [NO FEE REQUIRED]**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file Number 001-14471**

**MEDICIS PHARMACEUTICAL CORPORATION 401(k) PLAN**

(Full title of the Plan)

**MEDICIS PHARMACEUTICAL CORPORATION**

(Name of the issuer of the securities held pursuant to the Plan)

7720 NORTH DOBSON ROAD

SCOTTSDALE, ARIZONA 85256

(Address of principal executive office of the issuer)

**MEDICIS PHARMACEUTICAL CORPORATION 401(k) PLAN**

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Notes to Financial Statements

Schedule H, Line 4(i), Schedule of Assets (Held at End of Year)

Signature

Exhibit 23 Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm

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Financial Statements and Supplemental Schedule  
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Year ended December 31, 2007

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Medicis Pharmaceutical Corporation 401(k) Plan

Financial Statements and Supplemental Schedule

Year Ended December 31, 2007

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Report of Independent Registered Public Accounting Firm

Medicis Pharmaceutical Corporation

As Plan Administrator of the Medicis Pharmaceutical Corporation 401(k) Plan

We have audited the accompanying statements of net assets available for benefits of Medicis Pharmaceutical Corporation 401(k) Plan (the Plan ) as of December 31, 2007 and 2006, and the related statement of changes in net assets available for benefits for the year ended December 31, 2007. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Plan's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan at December 31, 2007 and 2006, and the changes in its net assets available for benefits for the year ended December 31, 2007, in conformity with U.S. generally accepted accounting principles.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedule of assets (held at end of year) as of December 31, 2007 is presented for purposes of additional analysis and is not a required part of the financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

/s/ Ernst & Young LLP

Phoenix, Arizona

June 23, 2008

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Medicis Pharmaceutical Corporation 401(k) Plan

Statements of Net Assets Available for Benefits

|  | <b>December 31</b>   |               |
|--|----------------------|---------------|
|  | <b>2007</b>          | <b>2006</b>   |
| <b>Assets</b>  |                      |               |
| Investments, at fair value   | <b>\$ 26,268,671</b> | \$ 21,322,274 |
| Employer contributions receivable  | <b>1,167,643</b>     | 900,781       |
| Participant contributions receivable   | <b>64,134</b>        | 56,874        |
| Interest and dividend receivable   | <b>2,337</b>         | 1,424         |
| Net assets available for benefits, at fair value   | <b>27,502,785</b>    | 22,281,353    |
| Adjustment from fair value to contract value for fully benefit-responsive investment contracts | <b>(3,499)</b>       |               |
| Net assets available for benefits  | <b>\$ 27,499,286</b> | \$ 22,281,353 |

*See accompanying notes.*

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Medicis Pharmaceutical Corporation 401(k) Plan

Statement of Changes in Net Assets Available for Benefits

Year Ended December 31, 2007

**Additions**

|   |               |
|---|---------------|
| Interest and dividend income  | \$ 1,467,772  |
| Employee contributions  | 3,773,705     |
| Rollover contributions  | 357,548       |
| Employer contributions  | 2,357,998     |
| Net realized and unrealized depreciation in fair value of investments | (470,256)     |
| <br>Net additions   | <br>7,486,767 |

**Deductions**

|  |               |
|--|---------------|
| Benefits paid directly to participants | 2,265,909     |
| Administrative expenses                | 2,925         |
| <br>Total deductions                   | <br>2,268,834 |

|                                    |                   |
|------------------------------------|-------------------|
| Net increase                       | 5,217,933         |
| Net assets available for benefits: |                   |
| Beginning of year                  | 22,281,353        |
| <br>End of year                    | <br>\$ 27,499,286 |

*See accompanying notes.*

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Medicis Pharmaceutical Corporation 401(k) Plan

Notes to Financial Statements

December 31, 2007

**1. Description of the Plan**

**General**

The Medicis Pharmaceutical Corporation 401(k) Plan, as amended, (the Plan) is a defined contribution plan available to eligible employees of Medicis Pharmaceutical Corporation (the Company or Plan Sponsor). The Plan covers all employees who have attained age 21 and excludes individuals who are hired for a special project which is not expected to last more than 6 months. Eligible employees may elect to join the Plan on their initial employment date but must complete 1,000 hours of service in order to receive profit sharing contributions. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA). For a more complete description of the Plan's provisions please refer to the Plan document.

**Contributions**

Participants may make pre-tax contributions up to 100% of their annual compensation as defined by the Plan, and subject to the annual limits of the Internal Revenue Code. Participants may also contribute amounts representing distributions from other qualified plans.

Effective April 1, 2006, the Plan Sponsor changed its matching contributions from an amount equal to 50 percent of the first 3 percent of the participant's contribution to an amount equal to 50 percent of the first 6 percent of the participant's contribution. In addition, the Plan Sponsor may, at its sole discretion, make a profit sharing contribution to the Plan for any Plan year. Profit sharing contributions totaled \$985,006 and matching contributions totaled \$1,372,992 during 2007. The profit sharing contribution is provided to all eligible participants based on a percentage of their eligible compensation for the year.

**Participant Accounts**

Each participant's account is credited with the participant's and Company contributions and the allocation of Plan earnings. The benefit to which a participant is allowed is limited to the vested balance in his account.



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Medicis Pharmaceutical Corporation 401(k) Plan

Notes to Financial Statements (continued)

**1. Description of the Plan (continued)**

**Vesting**

Participants vest immediately in their elective contributions plus actual earnings thereon, and such amounts are nonforfeitable. Vesting in the Company contribution portion of their accounts plus actual earnings thereon is based on years of continuous service. A participant is 20 percent vested after two full years of service and vests 60 percent after three years and 100 percent after four years. A participant becomes fully vested upon disability or death or reaching normal retirement age, as defined by the Plan.

**Participant Loans**

Participants may borrow from their accounts a minimum of \$1,000 to a maximum equal to the lesser of \$50,000 or 50% of their vested account balance. Loan terms shall be no greater than five years.

**Forfeitures**

Forfeited balances of terminated participants' nonvested accounts are used to pay Plan expenses not paid by the Plan Sponsor or will be used to reduce future Plan Sponsor contributions. Forfeited contributions totaled \$81,426 in 2007 and the Plan did not use forfeitures to pay Plan expenses. At December 31, 2007 and 2006, unallocated forfeitures totaled \$80,106 and \$40,136, respectively.

**Benefit Payments**

Upon termination of service for any reason, a participant's account is generally distributed in a single lump-sum payment upon request. If the account balance is \$1,000 or less, the entire balance is distributed to the participant.

**Plan Termination**

Although it has not expressed any intent to do so, the Company has the right to terminate the Plan at any time, subject to the provisions of ERISA. In the event of a termination of the Plan, participants will become fully vested in their accounts.

**Administrative Expenses**

The Company typically pays the majority of the administrative fees for the Plan.

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Medicis Pharmaceutical Corporation 401(k) Plan

Notes to Financial Statements (continued)

**2. Significant Accounting Policies**

**Basis of Accounting**

The accompanying financial statements of the Plan have been prepared on an accrual basis.

**Investments Valuation**

All Plan investments are held by The Charles Schwab Trust Company (Charles Schwab or the Trustee). Investments in registered investment company mutual funds are valued at quoted market prices which represent the net asset value of shares held by the Plan at year-end. Investments in Common Collective trust funds are stated at estimated fair values of the underlying marketable securities and discounted cash flows for underlying fully benefit-responsive investment contracts. The shares of Medicis Pharmaceutical Corporation common stock are valued at quoted market prices at year-end. Participant loans are valued at their outstanding balance, which approximates fair value.

As described in Financial Accounting Standards Board (FASB) Staff Position (FSP) AAG INV-1 and SOP 94-4-1, *Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans* (the FSP), investment contracts held by a defined contribution plan are required to be reported at fair value. However, contract value is the relevant measurement attribute for that portion of the net assets available for benefits of a defined contribution plan attributable to fully benefit-responsive investment contracts because contract value is the amount participants would receive if they were to initiate permitted transactions under the terms of the Plan. The Schwab Stable Value Fund held by the Plan holds guaranteed investment contracts which are subject to the FSP.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

The realized gain or loss on investments is included with unrealized appreciation or depreciation in the stated fair value of investments.

Investment securities are exposed to various risks, such as interest rate, credit and market volatility risks. The Plan's exposure to credit loss in the event of nonperformance of investments is limited to the carrying value of such investments. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in risks in the near term could materially affect the amounts reported in the Statements of Net Assets Available for Benefits.

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Medicis Pharmaceutical Corporation 401(k) Plan

Notes to Financial Statements (continued)

**2. Significant Accounting Policies (continued)**

**Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

**New Accounting Pronouncements**

In September 2006, the FASB issued Statement on Financial Accounting Standards No. 157 (SFAS 157), *Fair Value Measurements*. SFAS 157 establishes a single authoritative definition of fair value, sets out a framework for measuring fair value and requires additional disclosures about fair value measurement. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is currently evaluating what impact the adoption of SFAS 157 will have on the Plan's financial statements upon adoption for the year ending December 31, 2008.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. The standard provides reporting entities with an option to report selected financial assets and liabilities at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between reporting entities that choose different measurement attributes for similar types of assets and liabilities. The new standard is effective for the Plan on January 1, 2008. The Plan did not elect the fair value option for any financial assets or financial liabilities as of January 1, 2008.

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## Medicis Pharmaceutical Corporation 401(k) Plan

## Notes to Financial Statements (continued)

**3. Investments**

The fair value of individual investments that represent 5 percent or more of the Plan's net assets available for benefits is as follows as of December 31:

|   | 2007                | 2006         |
|---|---------------------|--------------|
| American Fund Investment Co Amer R4                     | <b>\$ 4,116,181</b> | \$ 3,624,585 |
| Schwab Managed Retirement 2030                          | <b>3,052,706</b>    | 2,771,506    |
| William Blair International Growth Fund                 | <b>2,496,717</b>    | 1,876,678    |
| Goldman Sachs Mid Cap Value A                           | <b>2,064,042</b>    | 1,913,755    |
| Thornburg Intl Value I                                  | <b>1,849,461</b>    | *            |
| Medicis Pharmaceutical Corporation Class A Common Stock | <b>1,729,316</b>    | 1,774,062    |
| Brandywine Blue Fund                                    | <b>1,674,269</b>    | *            |
| Schwab Managed Retirement 2020                          | <b>1,635,143</b>    | 1,250,587    |
| UBS U.S. Small Cap Growth C1 Y                          | <b>1,514,338</b>    | 1,227,793    |
| Cohen & Steers Realty Shares                            | *                   | 1,427,061    |

\*Investment balance represents less than 5% of net assets for indicated year.

During 2007, the Plan's investments (including investments purchased, sold, as well as held during the year) appreciated (depreciated) in fair value as follows:

|                               |              |
|-------------------------------|--------------|
| Mutual funds                  | \$ (208,478) |
| Common collective trust funds | 274,241      |
| Common stock                  | (536,019)    |
| Total                         | \$ (470,256) |

**4. Income Tax Status**

The Plan has received a determination letter from the Internal Revenue Service dated September 4, 2003, stating that the Plan is qualified under Section 401(a) of the Internal Revenue Code (IRC) and, therefore, the related trust is exempt from taxation. Subsequent to this determination by the Internal Revenue Service, the Plan was amended. Once qualified, the Plan is required to operate in conformity with the IRC to maintain its qualification. The Plan Sponsor has indicated that it will take the necessary steps, if any, to maintain the Plan's qualified status. Subsequent amendments have been structured to, and are intended to, maintain the Plan's qualified status.

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Medicis Pharmaceutical Corporation 401(k) Plan

Notes to Financial Statements (continued)

**5. Parties-In-Interest**

Certain Plan investments are shares in mutual funds or units of common collective trust funds managed by Charles Schwab or its affiliates. Because Charles Schwab is the Plan's trustee, these transactions qualify as party-in-interest transactions. In addition, certain Plan investments are in Medicis Pharmaceutical Corporation Class A Common Stock. These transactions also qualify as party-in-interest transactions. Still other Plan investments are made in the form of loans to Plan participants. These transactions also qualify as party-in-interest transactions.

**6. Reconciliation of Financial Statements to Form 5500**

The following is a reconciliation of net assets available for benefits per the financial statements to the Form 5500:

|  |               |
|--|---------------|
| Net assets available for benefits per the financial statements             | \$ 27,499,286 |
| Investment contract valuation adjustment from contract value to fair value | 3,499         |
| Net assets available for benefits per Form 5500                            | \$ 27,502,785 |

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Supplemental Schedule

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## Medicis Pharmaceutical Corporation 401(k) Plan

Schedule H, Line 4(i) Schedule of Assets (Held at End of Year)

EIN: 52-1574808 PN: 001

December 31, 2007

| <b>Identity of Issue, Borrower, Lessor, or Similar Party</b> | <b>Description of Investment Including Maturity Date, Rate of Interest, Collateral, Par, Shares or Maturity Value</b> | <b>Cost</b> | <b>Current Value</b> |
|--|---|-------------|----------------------|
| Mutual funds:  |   |             |                      |
| American Fund Investment Co Amer R4                          | Registered Investment Company   | **          | \$4,116,181          |
| Cohen & Steers Institutional Global Realty                   | Registered Investment Company   | **          | 841,505              |
| Goldman Sachs Mid Cap Value A                                | Registered Investment Company   | **          | 2,064,042            |
| MFS Value Fund Class A                                       | Registered Investment Company   | **          | 1,113,381            |
| PIMCO Total Return Fund CI A                                 | Registered Investment Company   | **          | 452,460              |
| Thornburg International Value I                              | Registered Investment Company   | **          | 1,849,461            |
| UBS U.S. Small Cap Growth CI Y                               | Registered Investment Company   | **          | 1,514,338            |
| William Blair International Growth Fund                      | Registered Investment Company   | **          | 2,496,717            |
| Alliancebernstein Value Adv CI                               | Registered Investment Company   | **          | 301,930              |
| Brandywine Blue Fund   | Registered Investment Company   | **          | 1,674,269            |
| Allianz NACM Pacific Rim Fund CI D                           | Registered Investment Company   | **          | 12,221               |
| Amcent: Benham International Bond                            | Registered Investment Company   | **          | 35,095               |
| Brandywine Advisors Fund                                     | Registered Investment Company   | **          | 22,574               |
| CGM Focus Fund   | Registered Investment Company   | **          | 4,358                |
| Cohen & Steers Intl Realty CI A                              | Registered Investment Company   | **          | 7,453                |
| DFA Five-year Globalfixed Inc. Port                          | Registered Investment Company   | **          | 10,353               |
| DFA Real-estate Securities Portfolio                         | Registered Investment Company   | **          | 27,429               |
| DFA Two-year Global Fixed-Income                             | Registered Investment Company   | **          | 30,193               |
| DFA US Large Cap Value Portfolio                             | Registered Investment Company   | **          | 5,013                |
| DFA US Large Company Portfolio                               | Registered Investment Company   | **          | 31,757               |
| DFA US Micro Cap Port  | Registered Investment Company   | **          | 10,055               |
| DFA US Small Cap Value Portfolio                             | Registered Investment Company   | **          | 13,992               |
| Dodge & Cox Income FD  | Registered Investment Company   | **          | 20,588               |
| Dodge & Cox Intl Stock Fund                                  | Registered Investment Company   | **          | 10,482               |
| Franklin Aggressive  | Registered Investment Company   | **          | 14,607               |
| Harbor Capital Appr FD Investor CL                           | Registered Investment Company   | **          | 7,970                |
| Hartford Growth Opportunities FD                             | Registered Investment Company   | **          | 20,339               |
| Income Fund of America CI F American                         | Registered Investment Company   | **          | 9,924                |
| Janus Twenty Fund  | Registered Investment Company   | **          | 15,232               |
| Janus Worldwide Fund   | Registered Investment Company   | **          | 18,126               |
| Loomis Sayles Bond Fund CL R                                 | Registered Investment Company   | **          | 14,987               |
| Marsico Focus Fund   | Registered Investment Company   | **          | 29,316               |
| NB Focus Fund  | Registered Investment Company   | **          | 11,891               |
| Oakmark Fund   | Registered Investment Company   | **          | 76,266               |
| Old Mutual Large Cap Growth Fund                             | Registered Investment Company   | **          | 12,069               |
| PIMCO Total Return Fund Instl Class                          | Registered Investment Company   | **          | 50,232               |

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## Medicis Pharmaceutical Corporation 401(k) Plan

Schedule H, Line 4(i) Schedule of Assets (Held at End of Year) (continued)  
EIN: 52-1574808 PN: 001

December 31, 2007

| Identity of Issue, Borrower, Lessor, or Similar Party     | Description of Investment Including Maturity Date, Rate of Interest, Collateral, Par, Shares or Maturity Value | Cost | Current Value |
|---|--|------|---------------|
| Mutual funds (continued):                                 |  |      |               |
| Pioneer High Yield FD CL A                                | Registered Investment Company  | **   | \$ 9,987      |
| Rowe T Price Emerging                                     | Registered Investment Company  | **   | 5,303         |
| * Schwab S&P 500 Index Fund Inv Sh                        | Registered Investment Company  | **   | 20,872        |
| T Rowe Price New Asia Fund                                | Registered Investment Company  | **   | 10,696        |
| T Rowe Price New Era Fund                                 | Registered Investment Company  | **   | 14,461        |
| Templeton Growth Fund Class A                             | Registered Investment Company  | **   | 19,757        |
| Vanguard F-I SECS I-T US Treasury                         | Registered Investment Company  | **   | 22,549        |
| Vanguard Growth & Income                                  | Registered Investment Company  | **   | 12,045        |
| Vanguard Inflation Protected SEC FD                       | Registered Investment Company  | **   | 34,927        |
| Common collective trust funds:                            |  |      |               |
| * Schwab Managed Retirement 2010                          | Common Collective Trust Fund   | **   | 371,252       |
| * Schwab Managed Retirement 2020                          | Common Collective Trust Fund   | **   | 1,635,143     |
| * Schwab Managed Retirement 2030                          | Common Collective Trust Fund   | **   | 3,052,706     |
| * Schwab Managed Retirement 2040                          | Common Collective Trust Fund   | **   | 540,631       |
| * Schwab Managed Retirement 2050                          | Common Collective Trust Fund   | **   | 79,145        |
| * Schwab Managed Retirement INC                           | Common Collective Trust Fund   | **   | 12,945        |
| * Schwab Stable Value Fund                                | Common Collective Trust Fund   | **   | 1,299,530     |
| Common stock:   |  |      |               |
| * Medicis Pharmaceutical Corporation Class A Common Stock | Employer Securities  | **   | 1,729,316     |
| * Participant loans                                       | Interest rates ranging from 7.0%to 9.5%; various maturities  | **   | 238,267       |
| Money market  |  |      |               |
| Stock Liquidity   | Money Market   |      | 143           |
| Short-term investments:                                   |  |      |               |
| * Schwab Advisor Cash Reserves                            | Short-term investments   |      | 4,188         |
| * Schwab Money Market Fund                                | Short-term investments   |      | 207,999       |
| * Cash  | Short-term investments   | **   | 3             |
|   |  |      | \$26,268,671  |

\*Party in interest  
as defined by  
ERISA

\*\*Investments are  
participant-directed,

therefore cost  
information is not  
required.

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SIGNATURE

*The Plan.* Pursuant to the requirements of the Securities and Exchange Act of 1934 the Plan Administrator has duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

**MEDICIS PHARMACEUTICAL CORPORATION 401(k) PLAN**

(Full Title of the Plan)

Date: June 30, 2008

By: /s/ RICHARD D. PETERSON

Richard D. Peterson

Executive Vice President, Chief

Financial Officer and Treasurer of

Medicis Pharmaceutical Corporation,

issuer of the securities held pursuant to

the Plan (Plan Administrator)