

MEDICIS PHARMACEUTICAL CORP

Form 11-K

June 29, 2007

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

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

**For the fiscal year ended: December 31, 2006**

**○ 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)

8125 NORTH HAYDEN ROAD

SCOTTSDALE, ARIZONA 85258

(Address of principal executive office of the issuer)

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

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Report of Independent Registered Public Accounting Firm

Statements of Net Assets Available for Benefits at December 31, 2006 and 2005

Statement of Changes in Net Assets Available for Benefits for the Year Ended December 31, 2006

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  
Medicis Pharmaceutical Corporation 401(k) Plan  
Year ended December 31, 2006

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Medicis Pharmaceutical Corporation 401(k) Plan  
Financial Statements and Supplemental Schedule  
Year Ended December 31, 2006

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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 as of December 31, 2006 and 2005, and the related statement of changes in net assets available for benefits for the year ended December 31, 2006. 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 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, 2006 and 2005, and the changes in its net assets available for benefits for the year ended December 31, 2006, 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, 2006 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 26, 2007

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Medicis Pharmaceutical Corporation 401(k) Plan  
Statements of Net Assets Available for Benefits

	<b>December 31</b>	
	<b>2006</b>	<b>2005</b>
<b>Assets</b>		
Investments, at fair value	<b>\$21,322,274</b>	\$15,483,555
Employer contributions receivable	<b>900,781</b>	319,594
Participant contributions receivable	<b>56,874</b>	62,441
Interest and dividend receivable	<b>1,424</b>	965
Net assets available for benefits	<b>\$22,281,353</b>	\$15,866,555

*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, 2006

**Additions**

Interest and dividend income	\$ 909,196
Employee contributions	3,008,878
Rollover contributions	716,987
Employer contributions	1,464,635
Net realized and unrealized appreciation in fair value of investments	1,709,398

Total additions 7,809,094

**Deductions**

Benefits paid directly to participants	1,392,989
Administrative expenses	1,307

Total deductions 1,394,296

Net increase 6,414,798

Net assets available for benefits:  
Beginning of year 15,866,555

End of year \$ 22,281,353

*See accompanying notes.*

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Medicis Pharmaceutical Corporation 401(k) Plan  
Notes to Financial Statements  
December 31, 2006

**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 non-elective 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 \$520,000 and matching contributions totaled \$944,635 during 2006. The profit sharing contribution is provided to all eligible participants based on their relative 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)

*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 \$39,071 in 2006 and the Plan did not use forfeitures to pay Plan expenses. At December 31, 2006 unallocated forfeitures totaled \$40,136.

*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 valued at contract value (which approximates fair market value) as reported to the Plan by Charles Schwab. 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.

The Medicis Pharmaceutical Corporation Stock Fund (the Fund) is tracked on a unitized basis. The Fund consists of Medicis Pharmaceutical Corporation common stock and cash sufficient to meet the Fund's daily cash needs. Unitizing the Fund allows for daily trends. The value of a unit reflects the combined value of the common stock and the cash held by the Fund.

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 current 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.

*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.

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Medicis Pharmaceutical Corporation 401(k) Plan  
Notes to Financial Statements (continued)

*New Accounting Pronouncements*

In December 2005, the Financial Accounting Standards Board (FASB) issued FASB Staff Position 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). The FSP defines the circumstances in which an investment contract is considered fully benefit responsive and provides certain reporting and disclosure requirements for fully benefit responsive investment contracts in defined contribution health and welfare and pension plans. The financial statement presentation and disclosure provisions of the FSP are effective for financial statements issued for annual periods ending after December 15, 2006 and are required to be applied retroactively to all prior periods presented for comparative purposes. The Plan has adopted the provisions of the FSP at December 31, 2006. The Schwab Stable Value Fund held by the Plan holds guaranteed investment contracts which are subject to the FSP. Adoption of the FSP had an immaterial impact on the financial statements as the contract values approximate estimated fair values.

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 financial statements.

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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:

	2006	2005
Schwab Managed Retirement 2020	\$ 1,250,587	\$ *
Schwab Managed Retirement 2030	2,771,506	1,903,029
Schwab Stable Value Fund	*	1,361,635
Cohen & Steers Realty Shares	1,427,061	*
Goldman Sachs Mid Cap Value A	1,913,755	1,457,876
UBS U.S. Small Cap Growth C1 Y	1,227,793	1,032,945
William Blair International Growth Fund	1,876,678	1,179,040
American Fund Investment Co Amer R4	3,624,585	2,908,863
Medicis Pharmaceutical Corporation Class A Common Stock	1,774,062	1,065,755

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

During 2006, the Plan's investments (including investments purchased, sold, as well as held during the year) appreciated (depreciated) in fair value as follows:

Mutual funds	\$ 1,093,200
Common collective trust funds	430,956
Common stock	185,242
<b>Total</b>	<b>\$ 1,709,398</b>

**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. 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 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.

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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, 2006

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:			
American Fund Investment Co Amer R4	Registered Investment Company	**	\$3,624,585
Cohen & Steers Realty Shares	Registered Investment Company	**	1,427,061
Goldman Sachs Mid Cap Value A	Registered Investment Company	**	1,913,755
MFS Value Fund Class A	Registered Investment Company	**	848,138
PIMCO Total Return Fund	Registered Investment Company	**	293,557
Thornburg International Value I	Registered Investment Company	**	984,990
UBS U.S. Small Cap Growth CI Y	Registered Investment Company	**	1,227,793
William Blair International Growth Fund	Registered Investment Company	**	1,876,678
Alliancebernstein Value Adv CI	Registered Investment Company	**	199,576
Brandywine Blue Fund	Registered Investment Company	**	743,494
Allianz NACM Pacific Rim Fund CI D	Registered Investment Company	**	10,015
Brandywine Advisors Fund	Registered Investment Company	**	14,758
Bridgeway Aggressive Inv Port 2	Registered Investment Company	**	7,377
Calamos Growth Fund	Registered Investment Company	**	6,383
Cohen & Steers Intl Realty CI A	Registered Investment Company	**	7,090
DFA Five-year Globalfixed Inc. Port	Registered Investment Company	**	9,839
DFA Real-estate Securities Portfolio	Registered Investment Company	**	44,869
DFA Two-year Global Fixed-Income	Registered Investment Company	**	33,195
DFA US Large Cap Value Portfolio	Registered Investment Company	**	5,155
DFA US Large Company Portfolio	Registered Investment Company	**	23,014
DFA US Micro Cap Port	Registered Investment Company	**	7,641
DFA US Small Cap Value Portfolio	Registered Investment Company	**	14,438
Eaton Vance Worldwide Health Science	Registered Investment Company	**	3,087
Hartford Growth Opportunities FD	Registered Investment Company	**	15,886
Income Fund of America CI F American	Registered Investment Company	**	4,044
Janus Twenty Fund	Registered Investment Company	**	11,205
Janus Worldwide Fund	Registered Investment Company	**	16,595
Marsico Focus Fund	Registered Investment Company	**	24,819
NB Focus Fund	Registered Investment Company	**	11,161
Oakmark Fund	Registered Investment Company	**	79,143
Old Mutual Large Cap Growth Fund	Registered Investment Company	**	10,121
PIMCO Total Return Fund Instl Class	Registered Investment Company	**	32,368
Profunds Ultra Energy	Registered Investment Company	**	11,668
Royce Value Fund Investment Class	Registered Investment Company	**	11,390
* Schwab S&P 500 Index Fund Inv Shs	Registered Investment Company	**	19,813
SSGA Intl Stock Selection Fund	Registered Investment Company	**	34,160
Templeton Growth Fund CI A	Registered Investment Company	**	13,668
US Global Inv Global	Registered Investment Company	**	5,567

Vanguard Growth & Income

Registered Investment Company

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11,737

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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, 2006

Identity of Issue	Description of Asset	Cost	Current Value
Common Collective Trust Funds:			
* Schwab Managed Retirement 2010	Common Collective Trust Fund	**	\$ 355,320
* Schwab Managed Retirement 2020	Common Collective Trust Fund	**	1,250,587
* Schwab Managed Retirement 2030	Common Collective Trust Fund	**	2,771,506
* Schwab Managed Retirement 2040	Common Collective Trust Fund	**	135,301
* Schwab Stable Value Fund	Common Collective Trust Fund	**	1,064,212
Common Stock:			
* Medicis Pharmaceutical Corporation			
Class A Common Stock	Employer Securities	**	1,774,062
* Participant loans	Interest rates ranging from 5.0% to 10.5%; various maturities	**	102,556
Short-Term Investments:			
* Schwab Advisor Cash Reserves	Short-term investments	**	3,858
* Schwab Money Market Fund	Short-term investments	**	158,053
* Bank Midwest NA	Short-term investments	**	2,000
* Sterling Svgs 4.95%	Short-term investments	**	29,986
* Washington Mut BK 4.9%	Short-term investments	**	34,994
* Cash	Short-term investments	**	6
			\$ 21,322,274

\* 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 29, 2007

By: /s/ MARK A. PRYGOCKI, SR.

Mark A. Prygocki, Sr.  
Executive Vice President, Chief  
Financial Officer and Treasurer of  
Medicis Pharmaceutical Corporation,  
issuer of the securities held pursuant to  
the Plan (Plan Administrator)