MEDICIS PHARMACEUTICAL CORP
Form 10-Q
August 09, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2010

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from_____to_____

Commission file number: 001-14471

MEDICIS PHARMACEUTICAL CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware	52-1574808
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

7720 North Dobson Road
Scottsdale, Arizona 85256-2740
(Address of principal executive offices)
(602) 808-8800
(Registrant s telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2) Yes o No þ

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class	Outstanding at August 4, 2010
Class A Common Stock $.014 Par Value	60,171,937 (a)

(a) includes 1,814,237 shares of unvested restricted stock awards

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Part I. Financial Information
Item 1. Financial Statements

MEDICIS PHARMACEUTICAL CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)

	June 30, 2010 (unaudited)	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 98,308	$ 209,051
Short-term investments	445,209	319,229
Accounts receivable, net	136,899	95,222
Inventories, net	37,251	25,985
Deferred tax assets, net	67,261	66,321
Other current assets	20,418	16,525
Total current assets	805,346	732,333
Property and equipment, net	26,281	25,247
Net intangible assets	216,245	227,840
Goodwill	93,282	93,282
Deferred tax assets, net	52,818	64,947
Long-term investments	60,996	25,524
Other assets	3,025	3,025
	$1,257,993	$ 1,172,198

See accompanying notes to condensed consolidated financial statements.

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MEDICIS PHARMACEUTICAL CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS, Continued
(in thousands, except share amounts)

	June 30, 2010 (unaudited)	December 31, 2009
Liabilities		
Current liabilities:		
Accounts payable	$ 58,574	$ 44,183
Reserve for sales returns	49,194	48,062
Accrued consumer rebates and loyalty programs	90,364	73,311
Managed care and Medicaid reserves	44,410	47,078
Income taxes payable	2,756	16,679
Other current liabilities	71,466	68,381
Total current liabilities	316,764	297,694
Long-term liabilities:		
Contingent convertible senior notes	169,326	169,326
Other liabilities	7,961	9,919
Stockholders Equity		
Preferred stock, $0.01 par value; shares authorized: 5,000,000; issued and outstanding: none		
Class A common stock, $0.014 par value; shares authorized: 150,000,000; issued and outstanding: 71,204,269 and 70,732,409 at June 30, 2010 and December 31, 2009, respectively	986	985
Class B common stock, $0.014 par value; shares authorized: 1,000,000; issued and outstanding: none		
Additional paid-in capital	696,611	690,497
Accumulated other comprehensive loss	(2,813)	(3,814)
Accumulated earnings	416,504	351,842
Less: Treasury stock, 12,882,586 and 12,749,261 shares at cost at June 30, 2010 and December 31, 2009, respectively	(347,346)	(344,251)
Total stockholders equity	763,942	695,259
	$1,257,993	$ 1,172,198

See accompanying notes to condensed consolidated financial statements.

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MEDICIS PHARMACEUTICAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(unaudited)
(in thousands, except per share data)

	Three Months Ended		Six Months Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Net product revenues	$172,183	$138,695	$336,723	$235,294
Net contract revenues	1,862	2,551	3,812	5,770
Net revenues	174,045	141,246	340,535	241,064
Cost of product revenues (1)	16,527	13,067	32,283	22,512
Gross profit	157,518	128,179	308,252	218,552
Operating expenses:				
Selling, general and administrative (2)	80,873	71,654	156,822	142,079
Research and development (3)	10,511	12,072	20,675	25,347
Depreciation and amortization	7,239	7,945	14,292	15,077
Operating income	58,895	36,508	116,463	36,049
Interest and investment income	(780)	(2,158)	(1,940)	(4,645)
Interest expense	1,061	1,058	2,119	2,112
Other (income) expense, net	(2)	(2,243)	257	630
Income before income tax expense	58,616	39,851	116,027	37,952
Income tax expense	22,117	24,258	44,158	22,031
Net income	$ 36,499	$ 15,593	$ 71,869	$ 15,921
Basic net income per share	$ 0.61	$ 0.26	$ 1.19	$ 0.27
Diluted net income per share	$ 0.56	$ 0.25	$ 1.10	$ 0.27
Cash dividend declared per common share	$ 0.06	$ 0.04	$ 0.12	$ 0.08

Common shares used in calculating:				
Basic net income per share	58,271	57,088	58,161	56,911
Diluted net income per share	64,395	63,008	64,294	62,838
(1) amounts exclude amortization of intangible assets related to acquired products	$ 5,351	$ 6,233	$ 10,703	$ 11,675
(2) amounts include share-based compensation expense	$ 2,197	$ 4,786	$ 5,161	$ 8,519
(3) amounts include share-based compensation expense	$ 92	$ 230	$ 223	$ 368

See accompanying notes to condensed consolidated financial statements.

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MEDICIS PHARMACEUTICAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(in thousands)

	Six Months Ended	
	June 30, 2010	June 30, 2009
Operating Activities:		
Net income	$ 71,869	$ 15,921
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	14,292	15,077
Gain on sale of product rights		(350)
Gain on sale of Medicis Pediatrics		(2,915)
Adjustment of impairment of available-for-sale investments	260	(33)
Charge reducing value of investment in Revance		2,886
Loss (gain) on sale of available-for-sale investments, net	750	(76)
Share-based compensation expense	5,384	8,887
Deferred income tax expense (benefit)	10,602	(3,378)
Tax expense from exercise of stock options and vesting of restricted stock awards	(269)	(694)
Excess tax benefits from share-based payment arrangements	(320)	(169)
Increase in provision for sales discounts and chargebacks	1,031	1,120
Accretion (amortization) of premium/(discount) on investments	1,811	1,416
Changes in operating assets and liabilities:		
Accounts receivable	(42,708)	(45,941)
Inventories	(11,266)	(259)
Other current assets	(3,893)	(999)
Accounts payable	14,391	5,738
Reserve for sales returns	1,132	(1,937)
Income taxes payable	(13,923)	19,372
Other current liabilities	11,955	39,925
Other liabilities	(1,958)	(2,569)
Net cash provided by operating activities	59,140	51,022
Investing Activities:		
Purchase of property and equipment	(3,732)	(2,828)
Payments for purchase of product rights		(74,932)
Proceeds from sale of product rights		350
Proceeds from sale of Medicis Pediatrics		70,294
Purchase of available-for-sale investments	(273,403)	(154,187)
Sale of available-for-sale investments	41,238	71,201
Maturity of available-for-sale investments	69,515	84,276
Net cash used in investing activities	(166,382)	(5,826)
Financing Activities:		

Payment of dividends	(5,993)	(4,663)
Excess tax benefits from share-based payment arrangements	320	169
Proceeds from the exercise of stock options	2,206	6,807
Net cash (used in) provided by financing activities	(3,467)	2,313
Effect of exchange rate on cash and cash equivalents	(34)	(177)
Net (decrease) increase in cash and cash equivalents	(110,743)	47,332
Cash and cash equivalents at beginning of period	209,051	86,450
Cash and cash equivalents at end of period	$ 98,308	$ 133,782

See accompanying notes to condensed consolidated financial statements.

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MEDICIS PHARMACEUTICAL CORPORATION
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2010
(unaudited)

1. NATURE OF BUSINESS

Medicis Pharmaceutical Corporation (Medicis or the Company) is a leading specialty pharmaceutical company focusing primarily on the development and marketing of products in the United States (U.S.) for the treatment of dermatological and aesthetic conditions. Medicis also markets products in Canada for the treatment of dermatological and aesthetic conditions and began commercial efforts in Europe with the Company s acquisition of LipoSonix, Inc. (LipoSonix) in July 2008.

The Company offers a broad range of products addressing various conditions or aesthetic improvements including facial wrinkles, glabellar lines, acne, fungal infections, rosacea, hyperpigmentation, photoaging, psoriasis, seborrheic dermatitis and cosmesis (improvement in the texture and appearance of skin). Medicis currently offers 16 branded products. Its primary brands are DYSPORT®, PERLANE®, RESTYLANE®, SOLODYN®, TRIAZ®, VANOS® and ZIANA®. Medicis entered the non-invasive body contouring market with its acquisition of LipoSonix in July 2008.

The consolidated financial statements include the accounts of Medicis and its wholly owned subsidiaries. The Company does not have any subsidiaries in which it does not own 100% of the outstanding stock. All of the Company s subsidiaries are included in the consolidated financial statements. All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying interim condensed consolidated financial statements of Medicis have been prepared in conformity with U.S. generally accepted accounting principles, consistent in all material respects with those applied in the Company s Annual Report on Form 10-K for the year ended December 31, 2009. The financial information is unaudited, but reflects all adjustments, consisting only of normal recurring adjustments and accruals, which are, in the opinion of the Company s management, necessary to a fair statement of the results for the interim periods presented. Interim results are not necessarily indicative of results for a full year. The information included in this Form 10-Q should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2009.

2. SHARE-BASED COMPENSATION

Stock Option and Restricted Stock Awards

At June 30, 2010, the Company had seven active share-based employee compensation plans. Of these seven share-based compensation plans, only the 2006 Incentive Award Plan is eligible for the granting of future awards. Stock option awards granted from these plans are granted at the fair market value on the date of grant. The option awards vest over a period determined at the time the options are granted, ranging from one to five years, and generally have a maximum term of ten years. Certain options provide for accelerated vesting if there is a change in control (as defined in the plans). When options are exercised, new shares of the Company s Class A common stock are issued.

The total value of the stock option awards is expensed ratably over the service period of the employees receiving the awards. As of June 30, 2010, total unrecognized compensation cost related to stock option awards, to be recognized as expense subsequent to June 30, 2010, was approximately $1.7 million and the related weighted average period over which it is expected to be recognized is approximately 2.3 years.

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A summary of stock option activity within the Company s stock-based compensation plans and changes for the six months ended June 30, 2010, is as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Balance at December 31, 2009	9,253,847	$29.24		
Granted	153,295	$23.33		
Exercised	(121,247)	$18.39		
Terminated/expired	(361,446)	$29.86		
Balance at June 30, 2010	8,924,449	$29.26	2.6	$3,978,873

The intrinsic value of options exercised during the six months ended June 30, 2010, was $733,008. Options exercisable under the Company s share-based compensation plans at June 30, 2010, were 8,603,970, with a weighted average exercise price of $29.44, a weighted average remaining contractual term of 2.4 years, and an aggregate intrinsic value of $3,397,299.

A summary of outstanding and exercisable stock options that are fully vested and are expected to vest, based on historical forfeiture rates, as of June 30, 2010, is as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding, net of expected forfeitures	8,167,720	$29.37	2.6	$3,488,183
Exercisable, net of expected forfeitures	7,891,666	$29.53	2.5	$3,058,463

The fair value of each stock option award is estimated on the date of the grant using the Black-Scholes option pricing model with the following assumptions:

	Six Months Ended	
	June 30, 2010	June 30, 2009
Expected dividend yield	1.02% to 1.06%	0.34% to 1.01%
Expected stock price volatility	0.33	0.45 to 0.46
Risk-free interest rate	2.82% to 3.04%	2.18% to 2.76%
Expected life of options	7.0 Years	7.0 Years

The expected dividend yield is based on expected annual dividends to be paid by the Company as a percentage of the market value of the Company s stock as of the date of grant. The Company determined that a blend of implied volatility and historical volatility is more reflective of market conditions and a better indicator of expected volatility than using purely historical volatility. The risk-free interest rate is based on the U.S. treasury security rate in effect as of the date of grant. The expected lives of options are based on historical data of the Company.

The weighted average fair value of stock options granted during the six months ended June 30, 2010 and 2009, was $8.28 and $6.44, respectively.

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The Company also grants restricted stock awards to certain employees. Restricted stock awards are valued at the closing market value of the Company s Class A common stock on the date of grant, and the total value of the award is expensed ratably over the service period of the employees receiving the grants. During the six months ended June 30, 2010, 511,235 shares of restricted stock were granted to certain employees. Share-based compensation expense related to all restricted stock awards outstanding during the three months ended June 30, 2010 and 2009, was approximately $1.4 million and $2.3 million, respectively. Share-based compensation expense related to all restricted stock awards outstanding during the six months ended June 30, 2010 and 2009, was approximately $3.3 million and $4.1 million, respectively. As of June 30, 2010, the total amount of unrecognized compensation cost related to nonvested restricted stock awards, to be recognized as expense subsequent to June 30, 2010, was approximately $29.9 million, and the related weighted average period over which it is expected to be recognized is approximately 3.1 years.

A summary of restricted stock activity within the Company s share-based compensation plans and changes for the six months ended June 30, 2010, is as follows:

Nonvested Shares	Shares	Weighted Average Grant-Date Fair Value
Nonvested at December 31, 2009	1,915,469	$17.12
Granted	511,235	$22.69
Vested	(352,736)	$18.57
Forfeited	(223,941)	$18.91
Nonvested at June 30, 2010	1,850,027	$18.17

The total fair value of restricted shares vested during the six months ended June 30, 2010 and 2009, was approximately $6.6 million and $3.7 million, respectively.

Stock Appreciation Rights

During 2009, the Company began granting cash-settled stock appreciation rights (SARs) to many of its employees. SARs generally vest over a graduated five-year period and expire seven years from the date of grant, unless such expiration occurs sooner due to the employee s termination of employment, as provided in the applicable SAR award agreement. SARs allow the holder to receive cash (less applicable tax withholding) upon the holder s exercise, equal to the excess, if any, of the market price of the Company s Class A common stock on the exercise date over the exercise price, multiplied by the number of shares relating to the SAR with respect to which the SAR is exercised. The exercise price of the SAR is the fair market value of a share of the Company s Class A common stock relating to the SAR on the date of grant. The total value of the SARs is expensed over the service period of the employees receiving the grants, and a liability is recognized in the Company s condensed consolidated balance sheets until settled. The fair value of SARs is required to be remeasured at the end of each reporting period until the award is settled, and changes in fair value must be recognized as compensation expense to the extent of vesting each reporting period based on the new fair value. Share-based compensation expense related to SARs during the three months ended June 30, 2010 and 2009, was approximately $0.5 million and $0.9 million, respectively. Share-based compensation expense related to SARs during the six months ended June 30, 2010 and 2009, was approximately $1.2 million and $1.1 million, respectively. As of June 30, 2010, the total measured amount of unrecognized compensation cost related to outstanding SARs, to be recognized as expense subsequent to June 30, 2010, was approximately $23.6 million, and the related weighted average period over which it is expected to be recognized is approximately 4.1 years.

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The fair value of each SAR was estimated on the date of the grant, and was remeasured at quarter-end, using the Black-Scholes option pricing model with the following assumptions:

	SARs Granted During the Six Months Ended June 30, 2010	SARs Granted During the Six Months Ended June 30, 2009	Remeasurement as of June 30, 2010
Expected dividend yield	0.95% to 1.06%	0.35% to 1.01%	1.10%
Expected stock price volatility	0.32 to 0.33	0.45 to 0.46	0.34
Risk-free interest rate	3.04% to 3.07%	2.18% to 2.76%	2.42%
Expected life of SARs	7.0 Years	7.0 Years	5.7 to 6.8 Years

The weighted average fair value of SARs granted during the six months ended June 30, 2010 and 2009, as of the respective grant dates, was $8.14 and $5.33, respectively. The weighted average fair value of all SARs outstanding as of the remeasurement date of June 30, 2010 was $9.69.

A summary of SARs activity for the six months ended June 30, 2010, is as follows:

	Number of SARs	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Balance at December 31, 2009	1,916,156	$11.40		
Granted	1,401,769	$22.82		
Exercised	(72,328)	$11.30		
Terminated/expired	(209,195)	$12.68		
Balance at June 30, 2010	3,036,402	$16.58	6.1	$17,374,893

The intrinsic value of SARs exercised during the six months ended June 30, 2010, was $928,011.

As of June 30, 2010, 111,566 SARs were exercisable, with a weighted average exercise price of $11.29, a weighted average remaining contractual term of 5.7 years, and an aggregate intrinsic value of $1,181,363.

3. SHORT-TERM AND LONG-TERM INVESTMENTS

The Company s policy for its short-term and long-term investments is to establish a high-quality portfolio that preserves principal, meets liquidity needs, avoids inappropriate concentrations and delivers an appropriate yield in relationship to the Company s investment guidelines and market conditions. Short-term and long-term investments consist of corporate and various government agency and municipal debt securities. The Company s investments in auction rate floating securities consist of investments in student loans. Management classifies the Company s short-term and long-term investments as available-for-sale. Available-for-sale securities are carried at fair value with unrealized gains and losses reported in stockholders equity. Realized gains and losses and declines in value judged to be other than temporary, if any, are included in other expense in the condensed consolidated statement of operations. A decline in the market value of any available-for-sale security below cost that is deemed to be other than temporary, results in impairment of the fair value of the investment. The impairment is charged to earnings and a new cost basis for the security is established. Premiums and discounts are amortized or accreted over the life of the related

available-for-sale security. Dividends and interest income are recognized when earned. The cost of securities sold is calculated using the specific identification method. At June 30, 2010, the Company has recorded the estimated fair value of available-for-sale and trading securities in short-term and long-term investments of approximately $445.2 million and $61.0 million, respectively. At June 30, 2010, $1.3 million of the Company s investments were classified as trading securities.

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Available-for-sale and trading securities consist of the following at June 30, 2010 (amounts in thousands):

	June 30, 2010				
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Other-Than-Temporary Impairment Losses	Fair Value
Corporate notes and bonds	$ 125,343	$ 427	$ (248)	$	$ 125,522
Federal agency notes and bonds	354,966	1,033	(112)		355,887
Auction rate floating securities	31,725		(7,550)		24,175
Asset-backed securities	613	8			621
Total securities	$ 512,647	$ 1,468	$ (7,910)	$	$ 506,205

During the three and six months ended June 30, 2010, no gross realized gains on sales of available-for-sale securities were recognized. During the three and six months ended June 30, 2010, $0.5 million of gross realized losses were recognized. Gross unrealized gains and losses are determined based on the specific identification method. The net adjustment to unrealized gains during the three and six months ended June 30, 2010, on available-for-sale securities included in stockholders equity totaled $0.6 million and $0.9 million, respectively. The amortized cost and estimated fair value of the available-for-sale securities at June 30, 2010, by maturity, are shown below (amounts in thousands):

	June 30, 2010	
	Cost	Estimated Fair Value
Available-for-sale		
Due in one year or less	$ 244,907	$ 245,266
Due after one year through five years	236,015	236,764
Due after 10 years	30,425	22,875
	$ 511,347	$ 504,905

Expected maturities will differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties, and the Company views its available-for-sale securities as available for current operations. At June 30, 2010, approximately $61.0 million in estimated fair value expected to mature greater than one year has been classified as long-term investments since these investments are in an unrealized loss position, and management has both the ability and intent to hold these investments until recovery of fair value, which may be maturity.

As of June 30, 2010, the Company s investments included auction rate floating securities with a fair value of $24.2 million. The Company s auction rate floating securities are debt instruments with a long-term maturity and with an interest rate that is reset in short intervals through auctions. The negative conditions in the credit markets during 2008, 2009 and the first half of 2010 have prevented some investors from liquidating their holdings, including their holdings of auction rate floating securities. During the three months ended March 31, 2008, the Company was informed that there was insufficient demand at auction for the auction rate floating securities. As a result, these affected auction rate floating securities are now considered illiquid, and the Company could be required to hold them until they are redeemed by the holder at maturity. The Company may not be able to liquidate the securities until a future auction on these investments is successful.

In November 2008, the Company entered into a settlement agreement with the broker through which the Company purchased auction rate floating securities. The settlement agreement provides the Company with the right to put an auction rate floating security currently held by the Company back to the broker beginning on June 30, 2010. At

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June 30, 2010 and December 31, 2009, the Company held one auction rate floating security with a par value of $1.3 million that was subject to the settlement agreement. At inception, the Company elected the irrevocable Fair Value Option treatment under ASC 825, *Financial Instruments*, and accordingly adjusts the put option to fair value at each reporting date. Concurrent with the execution of the settlement agreement, the Company reclassified this auction rate floating security from available-for-sale to trading securities and accordingly, future changes in fair value related to this investment and the related put option will be recorded in earnings. This auction rate floating security was settled at par on July 1, 2010.

During the three months ended March 31, 2010, the Company became aware of new circumstances that directly impacted the valuation of an asset-backed security that is owned by the Company. An unrealized loss on the asset-backed security, based on the Company s intent to hold the security until recovery of the fair value, had previously been recorded in stockholders equity. Based on the new circumstances related to the investment, the Company determined that the impairment of the asset-backed security was other-than-temporary, as the Company believed it would not recover its investment even if the asset were held to maturity. A $0.3 million impairment charge was therefore recorded in other expense, net, during the three months ended March 31, 2010 related to the asset-backed security. The asset-backed security was sold in April 2010.

The following table shows the gross unrealized losses and the fair value of the Company s investments, with unrealized losses that are not deemed to be other-than-temporarily impaired aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2010 (amounts in thousands):

	Less Than 12 Months		Greater Than 12 Months	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
Corporate notes and bonds	$ 53,508	$ 248	$	$
Federal agency notes and bonds	55,418	112		
Auction rate floating securities			22,875	7,550
Total securities	$ 108,926	$ 360	$ 22,875	$ 7,550

As of June 30, 2010, the Company has concluded that the unrealized losses on its investment securities are temporary in nature and are caused by changes in credit spreads and liquidity issues in the marketplace. Available-for-sale securities are reviewed quarterly for possible other-than-temporary impairment. This review includes an analysis of the facts and circumstances of each individual investment such as the severity of loss, the length of time the fair value has been below cost, the expectation for that security s performance and the creditworthiness of the issuer. Additionally, the Company does not intend to sell and it is not more-likely-than-not that the Company will be required to sell any of the securities before the recovery of their amortized cost basis.

4. FAIR VALUE MEASUREMENTS

As of June 30, 2010, the Company held certain assets that are required to be measured at fair value on a recurring basis. These included certain of the Company s short-term and long-term investments, including investments in auction rate floating securities, and the Company s investment in Hyperion Therapeutics, Inc. (Hyperion).

The Company has invested in auction rate floating securities, which are classified as available-for-sale or trading securities and reflected at fair value. Due to events in credit markets, the auction events for some of these instruments held by the Company failed during the three months ended March 31, 2008 (see Note 3). Therefore, the fair values of these auction rate floating securities, which are primarily rated AAA, are estimated utilizing a discounted cash flow analysis as of June 30, 2010. These analyses consider, among other items, the collateralization underlying the security investments, the creditworthiness of the counterparty, the timing of expected future cash flows, and the expectation of

the next time the security is expected to have a successful auction. These investments

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were also compared, when possible, to other observable market data with similar characteristics to the securities held by the Company. Changes to these assumptions in future periods could result in additional declines in fair value of the auction rate floating securities.

The Company s assets measured at fair value on a recurring basis subject to the disclosure requirements of ASC 820, *Fair Value Measurements and Disclosures*, at June 30, 2010, were as follows (in thousands):

		Fair Value Measurement at Reporting Date Using		
	June 30, 2010	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Corporate notes and bonds	$ 125,522	$ 125,522	$	$
Federal agency notes and bonds	355,887	355,887		
Auction rate floating securities	24,175			24,175
Asset-backed securities	621	621		
Investment in Hyperion	2,375			2,375
Total assets measured at fair value	$ 508,580	$ 482,030	$	$ 26,550

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The following tables present the Company s assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and six months ended June 30, 2010 (in thousands):

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	
	Auction Rate Floating Securities	Investment in Hyperion
Balance at March 31, 2010	$ 26,254	$ 2,375
Total gains (losses) included in other expense, net		
Total gains included in other comprehensive income	596	
Purchases and settlements, net	(2,675)	
Balance at June 30, 2010	$ 24,175	$ 2,375

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	
	Auction Rate Floating Securities	Investment in Hyperion
Balance at December 31, 2009	$ 26,821	$ 2,375
Total gains (losses) included in other expense, net		
Total gains included in other comprehensive income	629	
Purchases and settlements, net	(3,275)	
Balance at June 30, 2010	$ 24,175	$ 2,375

5. SALE OF MEDICIS PEDIATRICS

On June 10, 2009, Medicis, Medicis Pediatrics, Inc. (Medicis Pediatrics, formerly known as Ascent Pediatrics, Inc.), a wholly-owned subsidiary of Medicis, and BioMarin Pharmaceutical Inc. (BioMarin) entered into an amendment (the Amendment) to the Securities Purchase Agreement (the BioMarin Securities Purchase Agreement), dated as of May 18, 2004, and amended on January 12, 2005, by and among Medicis, Medicis Pediatrics, BioMarin and BioMarin Pediatrics Inc., a wholly-owned subsidiary of BioMarin that previously merged into BioMarin. The Amendment was effected to accelerate the closing of BioMarin s option under the BioMarin Securities Purchase Agreement to purchase from Medicis all of the issued and outstanding capital stock of Medicis Pediatrics (the Option), which was previously expected to close in August 2009. In accordance with the Amendment, the parties consummated the closing of the Option on June 10, 2009 (the BioMarin Option Closing). The aggregate cash consideration paid to Medicis in conjunction with the BioMarin Option Closing was approximately $70.3 million and the purchase was completed substantially in accordance with the previously disclosed terms of the BioMarin Securities Purchase Agreement.

As a result of the BioMarin Option Closing, the Company recognized a pretax gain of $2.2 million during the three months ended June 30, 2009, which is included in other (income) expense, net, in the condensed consolidated statements of income. The $2.2 million pretax gain is net of approximately $0.7 million of

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professional fees related to the transaction. Because of the difference between the Company s book and tax basis of goodwill in Medicis Pediatrics, the transaction resulted in a $24.8 million gain for income tax purposes, and, accordingly, the Company recorded a $9.0 million income tax provision related to this transaction during the three months ended June 30, 2009, which is included in income tax expense in the condensed consolidated statements of income.

6. INVESTMENT IN REVANCE

On December 11, 2007, the Company announced a strategic collaboration with Revance, a privately-held, venture-backed development-stage entity, whereby the Company made an equity investment in Revance and purchased an option to acquire Revance or to license exclusively in North America Revance s novel topical botulinum toxin type A product currently under clinical development. The consideration to be paid to Revance upon the Company s exercise of the option will be at an amount that will approximate the then fair value of Revance or the license of the product under development, as determined by an independent appraisal. The option period will extend through the end of Phase 2 testing in the United States. In consideration for the Company s $20.0 million payment, the Company received preferred stock representing an approximate 13.7 percent ownership in Revance, or approximately 11.7 percent on a fully diluted basis, and the option to acquire Revance or to license the product under development. The $20.0 million was used by Revance primarily for the development of the product. Approximately $12.0 million of the $20.0 million payment represented the fair value of the investment in Revance at the time of the investment and was included in other long-term assets in the Company s condensed consolidated balance sheets as of December 31, 2007. The remaining $8.0 million, which is non-refundable and was expected to be utilized in the development of the new product, represented the residual value of the option to acquire Revance or to license the product under development and was recognized as research and development expense during the three months ended December 31, 2007.

Prior to the exercise of the option, Revance will remain primarily responsible for the worldwide development of Revance s topical botulinum toxin type A product in consultation with the Company in North America. The Company will assume primary responsibility for the development of the product should consummation of either a merger or a license for topically delivered botulinum toxin type A in North America be completed under the terms of the option. Revance will have sole responsibility for manufacturing the development product and manufacturing the product during commercialization worldwide. The Company s right to exercise the option is triggered upon Revance s successful completion of certain regulatory milestones through the end of Phase 2 testing in the U.S. A license would contain a payment upon exercise of the license option, milestone payments related to clinical, regulatory and commercial achievements, and royalties based on sales defined in the license. If the Company elects to exercise the option, the financial terms for the acquisition or license will be determined through an independent valuation in accordance with specified methodologies.

The Company estimated the impairment and/or the net realizable value of the investment based on a hypothetical liquidation at book value approach as of the reporting date, unless a quantitative valuation metric was available for these purposes (such as the completion of an equity financing by Revance). During the three months ended March 31, 2009, the Company reduced the carrying value of its investment in Revance by approximately $2.9 million, as a result of a reduction in the estimated net realizable value of the investment using the hypothetical liquidation at book value approach. Such amount was recognized in other (income) expense. As a result of this reduction, the Company s investment in Revance as of March 31, 2009 was $0. As of June 30, 2010, the Company s investment in Revance related to this transaction was $0.

A business entity is subject to consolidation rules and is referred to as a variable interest entity if it lacks sufficient equity to finance its activities without additional financial support from other parties or its equity holders lack adequate decision making ability based on certain criteria. Disclosures are required about variable interest entities that a company is not required to consolidate, but in which a company has a significant variable interest. The Company has determined that Revance is a variable interest entity and that the Company is not the primary beneficiary, and therefore the Company s equity investment in Revance currently does not require the Company to consolidate Revance into its financial statements. The consolidation status could change in the future, however, depending on changes in the Company s relationship with Revance.

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7. STRATEGIC COLLABORATIONS

Perrigo

On April 8, 2009, the Company entered into a License and Settlement Agreement (the Perrigo License and Settlement Agreement) and a Joint Development Agreement (the Perrigo Joint Development Agreement) with Perrigo Israel Pharmaceuticals Ltd. Perrigo Company was also a party to the License and Settlement Agreement. Perrigo Israel Pharmaceuticals Ltd. and Perrigo Company are collectively referred to as Perrigo.

In connection with the Perrigo License and Settlement Agreement, the Company and Perrigo agreed to terminate all legal disputes between them relating to the Company s VANOS® fluocinonide Cream 0.1%. On April 17, 2009, the Court entered a consent judgment dismissing all claims and counterclaims between Medicis and Perrigo, and enjoining Perrigo from marketing a generic version of VANOS® other than under the terms of the Perrigo License and Settlement Agreement. In addition, Perrigo confirmed that certain of the Company s patents relating to VANOS® are valid and enforceable, and cover Perrigo s activities relating to its generic product under Abbreviated New Drug Application (ANDA) #090256. Further, subject to the terms and conditions contained in the Perrigo License and Settlement Agreement:

- the Company granted Perrigo, effective December 15, 2013, or earlier upon the occurrence of certain events, a license to make and sell generic versions of the existing VANOS® products; and
- when Perrigo does commercialize generic versions of VANOS® products, Perrigo will pay the Company a royalty based on sales of such generic products.

Pursuant to the Perrigo Joint Development Agreement, subject to the terms and conditions contained therein:

- the Company and Perrigo will collaborate to develop a novel proprietary product;
- the Company has the sole right to commercialize the novel proprietary product;
- if and when a New Drug Application (NDA) for a novel proprietary product is submitted to the U.S. Food and Drug Administration (FDA), the Company and Perrigo shall enter into a commercial supply agreement pursuant to which, among other terms, for a period of three years following approval of the NDA, Perrigo would exclusively supply to the Company all of the Company s novel proprietary product requirements in the U.S.;
- the Company made an up-front $3.0 million payment to Perrigo and will make additional payments to Perrigo of up to $5.0 million upon the achievement of certain development, regulatory and commercialization milestones; and
- the Company will pay to Perrigo royalty payments on sales of the novel proprietary product.

During the three months ended September 30, 2009, a development milestone was achieved, and the Company made a $2.0 million payment to Perrigo pursuant to the Perrigo Joint Development Agreement. The $3.0 million up-front payment and the $2.0 million development milestone payment were recognized as research and development expense during the three months ended June 30, 2009 and September 30, 2009, respectively.

IMPAX

On November 26, 2008, the Company entered into a License and Settlement Agreement and a Joint Development Agreement with IMPAX Laboratories, Inc. (IMPAX). In connection with the License and Settlement Agreement, the Company and IMPAX agreed to terminate all legal disputes between them relating to SOLODYN®. Additionally, under terms of the License and Settlement Agreement, IMPAX confirmed that the Company s patents relating to SOLODYN® are valid and enforceable, and cover IMPAX s activities relating to its generic product under ANDA #09-024.

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Under the terms of the License and Settlement Agreement, IMPAX has a license to market its generic versions of SOLODYN® 45mg, 90mg and 135mg under the SOLODYN® patent rights belonging to the Company upon the occurrence of specific events. Upon launch of its generic formulations of SOLODYN®, IMPAX may be required to pay the Company a royalty, based on sales of those generic formulations by IMPAX under terms described in the License and Settlement Agreement.

Under the Joint Development Agreement, the Company and IMPAX will collaborate on the development of five strategic dermatology product opportunities, including an advanced-form SOLODYN® product. Under terms of the agreement, the Company made an initial payment of $40.0 million upon execution of the agreement. During the three months ended March 31, 2009, September 30, 2009 and December 31, 2009, the Company paid IMPAX $5.0 million, $5.0 million and $2.0 million, respectively, upon the achievement of three separate clinical milestones, in accordance with terms of the agreement. In addition, the Company will be required to pay up to $11.0 million upon successful completion of certain other clinical and commercial milestones. The Company will also make royalty payments based on sales of the advanced-form SOLODYN® product if and when it is commercialized by the Company upon approval by the FDA. The Company will share equally in the gross profit of the other four development products if and when they are commercialized by IMPAX upon approval by the FDA.

The $40.0 million initial payment was recognized as research and development expense during 2008, and the $5.0 million, $5.0 million and $2.0 million clinical milestone achievement payments were recognized as research and development expense during the three months ended March 31, 2009, September 30, 2009 and December 31, 2009, respectively.

8. SEGMENT AND PRODUCT INFORMATION

The Company operates in one significant business segment: pharmaceuticals. The Company s current pharmaceutical franchises are divided between the dermatological and non-dermatological fields. The dermatological field represents products for the treatment of acne and acne-related dermatological conditions and non-acne dermatological conditions. The non-dermatological field represents products for the treatment of urea cycle disorder, non-invasive body sculpting technology and contract revenue. The acne and acne-related dermatological product lines include DYNACIN®, PLEXION®, SOLODYN®, TRIAZ® and ZIANA®. The non-acne dermatological product lines include DYSPORT®, LOPROX®, PERLANE®, RESTYLANE® and VANOS®. The non-dermatological product lines include AMMONUL®, BUPHENYL® and the LIPOSONIX™ system. The non-dermatological field also includes contract revenues associated with licensing agreements and authorized generics.

The Company s pharmaceutical products, with the exception of AMMONUL® and BUPHENYL®, are promoted to dermatologists, podiatrists, and plastic surgeons. Such products are often prescribed by physicians outside these three specialties; including family practitioners, general practitioners, primary-care physicians and OB/GYNs, as well as hospitals, government agencies, and others. Currently, the Company s products are sold primarily to wholesalers and retail chain drug stores.

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Net revenues and the percentage of net revenues for each of the product categories are as follows (amounts in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Acne and acne-related dermatological products	$124,763	$ 94,185	$244,976	$160,638
Non-acne dermatological products	41,017	37,100	75,269	60,573
Non-dermatological products	8,265	9,961	20,290	19,853
Total net revenues	$174,045	$141,246	$340,535	$241,064

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Acne and acne-related dermatological products	72%	67%	72%	67%
Non-acne dermatological products	23	26	22	25
Non-dermatological products	5	7	6	8
Total net revenues	100%	100%	100%	100%

9. INVENTORIES

The Company primarily utilizes third parties to manufacture and package inventories held for sale, takes title to certain inventories once manufactured, and warehouses such goods until packaged for final distribution and sale. Inventories consist of salable products held at the Company s warehouses, as well as raw materials and components at the manufacturers facilities, and are valued at the lower of cost or market using the first-in, first-out method. The Company provides valuation reserves for estimated obsolescence or unmarketable inventory in an amount equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions.

Inventory costs associated with products that have not yet received regulatory approval are capitalized if, in the view of the Company s management, there is probable future commercial use and future economic benefit. If future commercial use and future economic benefit are not considered probable, then costs associated with pre-launch inventory that has not yet received regulatory approval are expensed as research and development expense during the period the costs are incurred. As of June 30, 2010 and December 31, 2009, there were $0.8 million and $0.3 million, respectively, of costs capitalized into inventory for products that have not yet received regulatory approval.

Inventories are as follows (amounts in thousands):

	June 30, 2010	**December 31, 2009**
Raw materials	$ 13,352	$ 7,472
Work-in-process	2,544	3,660
Finished goods	26,613	21,087
Valuation reserve	(5,258)	(6,234)

Total inventories	$ 37,251	$ 25,985

Selling, general and administrative costs capitalized into inventory during the three months ended June 30, 2010 and 2009 were $0.4 million and $0.4 million, respectively. Selling, general and administrative costs capitalized into inventory during the six months ended June 30, 2010 and 2009 was $0.8 million and $0.7 million,

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respectively. Selling, general and administrative expenses included in inventory as of June 30, 2010 and December 31, 2009 were $1.5 million and $1.2 million, respectively.

10. OTHER CURRENT LIABILITIES

Other current liabilities are as follows (amounts in thousands):

	June 30, 2010	December 31, 2009
Accrued incentives, including SARs liability	$ 23,013	$ 26,671
Deferred revenue	18,847	18,508
Other accrued expenses	29,606	23,202
	$ 71,466	$ 68,381

Included in deferred revenue as of June 30, 2010 and December 31, 2009, were $14.1 million and $15.4 million, respectively, associated with the deferral of revenue of our aesthetics products, including RESTYLANE®, PERLANE® and DYSPORT®, until our exclusive U.S. distributor ships the product to physicians.

11. CONTINGENT CONVERTIBLE SENIOR NOTES

In June 2002, the Company sold $400.0 million aggregate principal amount of its 2.5% Contingent Convertible Senior Notes Due 2032 (the Old Notes) in private transactions. As discussed below, approximately $230.8 million in principal amount of the Old Notes was exchanged for New Notes on August 14, 2003. The Old Notes bear interest at a rate of 2.5% per annum, which is payable on June 4 and December 4 of each year, beginning on December 4, 2002. The Company also agreed to pay contingent interest at a rate equal to 0.5% per annum during any six-month period, with the initial six-month period commencing June 4, 2007, if the average trading price of the Old Notes reaches certain thresholds. No contingent interest related to the Old Notes was payable at June 30, 2010 or December 31, 2009. The Old Notes will mature on June 4, 2032.

The Company may redeem some or all of the Old Notes at any time on or after June 11, 2007, at a redemption price, payable in cash, of 100% of the principal amount of the Old Notes, plus accrued and unpaid interest, including contingent interest, if any. Holders of the Old Notes may require the Company to repurchase all or a portion of their Old Notes on June 4, 2012 and June 4, 2017, or upon a change in control, as defined in the indenture governing the Old Notes, at 100% of the principal amount of the Old Notes, plus accrued and unpaid interest to the date of the repurchase, payable in cash. Under GAAP, if an obligation is due on demand or will be due on demand within one year from the balance sheet date, even though liquidation may not be expected within that period, it should be classified as a current liability. Accordingly, the outstanding balance of Old Notes along with the deferred tax liability associated with accelerated interest deductions on the Old Notes will be classified as a current liability during the respective twelve month periods prior to June 4, 2012 and June 4, 2017.

The Old Notes are convertible, at the holders option, prior to the maturity date into shares of the Company s Class A common stock in the following circumstances:

during any quarter commencing after June 30, 2002, if the closing price of the Company s Class A common stock over a specified number of trading days during the previous quarter, including the last trading day of such quarter, is more than 110% of the conversion price of the Old Notes, or $31.96. The Old Notes are initially convertible at a conversion price of $29.05 per share, which is equal to a conversion rate of approximately 34.4234 shares per $1,000 principal amount of Old Notes, subject to adjustment;

if the Company has called the Old Notes for redemption;

during the five trading day period immediately following any nine consecutive day trading period in which the trading price of the Old Notes per $1,000 principal amount for each day of such period was less than 95% of the product of the closing sale price of the Company s Class A common stock on that day multiplied by the

number of shares of the Company s Class A common stock issuable upon conversion of $1,000 principal amount of the Old Notes; or

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upon the occurrence of specified corporate transactions.

The Old Notes, which are unsecured, do not contain any restrictions on the payment of dividends, the incurrence of additional indebtedness or the repurchase of the Company s securities and do not contain any financial covenants.

The Company incurred $12.6 million of fees and other origination costs related to the issuance of the Old Notes. The Company amortized these costs over the first five-year Put period, which ran through June 4, 2007.

On August 14, 2003, the Company exchanged approximately $230.8 million in principal amount of its Old Notes for approximately $283.9 million in principal amount of its 1.5% Contingent Convertible Senior Notes Due 2033 (the New Notes). Holders of Old Notes that accepted the Company s exchange offer received $1,230 in principal amount of New Notes for each $1,000 in principal amount of Old Notes. The terms of the New Notes are similar to the terms of the Old Notes, but have a different interest rate, conversion rate and maturity date. Holders of Old Notes that chose not to exchange continue to be subject to the terms of the Old Notes.

The New Notes bear interest at a rate of 1.5% per annum, which is payable on June 4 and December 4 of each year, beginning December 4, 2003. The Company will also pay contingent interest at a rate of 0.5% per annum during any six-month period, with the initial six-month period commencing June 4, 2008, if the average trading price of the New Notes reaches certain thresholds. No contingent interest related to the New Notes was payable at June 30, 2010 or December 31, 2009. The New Notes mature on June 4, 2033.

As a result of the exchange, the outstanding principal amounts of the Old Notes and the New Notes were $169.2 million and $283.9 million, respectively. The Company incurred approximately $5.1 million of fees and other origination costs related to the issuance of the New Notes. The Company amortized these costs over the first five-year Put period, which ran through June 4, 2008.

Holders of the New Notes were able to require the Company to repurchase all or a portion of their New Notes on June 4, 2008, at 100% of the principal amount of the New Notes, plus accrued and unpaid interest, including contingent interest, if any, to the date of the repurchase, payable in cash. Holders of approximately $283.7 million of New Notes elected to require the Company to repurchase their New Notes on June 4, 2008. The Company paid $283.7 million, plus accrued and unpaid interest of approximately $2.2 million, to the holders of New Notes that elected to require the Company to repurchase their New Notes. The Company was also required to pay an accumulated deferred tax liability of approximately $34.9 million related to the repurchased New Notes. This $34.9 million deferred tax liability was paid during the second half of 2008. Following the repurchase of these New Notes, $181,000 of principal amount of New Notes remained outstanding as of June 30, 2010 and December 31, 2009.

The remaining New Notes are convertible, at the holders option, prior to the maturity date into shares of the Company s Class A common stock in the following circumstances:

during any quarter commencing after September 30, 2003, if the closing price of the Company s Class A common stock over a specified number of trading days during the previous quarter, including the last trading day of such quarter, is more than 120% of the conversion price of the New Notes, or $46.51. The Notes are initially convertible at a conversion price of $38.76 per share, which is equal to a conversion rate of approximately 25.7998 shares per $1,000 principal amount of New Notes, subject to adjustment;

if the Company has called the New Notes for redemption;

during the five trading day period immediately following any nine consecutive day trading period in which the trading price of the New Notes per $1,000 principal amount for each day of such period was less than 95% of the product of the closing sale price of the Company s Class A common stock on that day multiplied by the number of shares of the Company s Class A common stock issuable upon conversion of $1,000 principal amount of the New Notes; or

upon the occurrence of specified corporate transactions.

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The remaining New Notes, which are unsecured, do not contain any restrictions on the incurrence of additional indebtedness or the repurchase of the Company s securities and do not contain any financial covenants. The New Notes require an adjustment to the conversion price if the cumulative aggregate of all current and prior dividend increases above $0.025 per share would result in at least a one percent (1%) increase in the conversion price. This threshold has not been reached and no adjustment to the conversion price has been made.

During the quarters ended June 30, 2010, March 31, 2010 and December 31, 2009, the Old Notes and New Notes did not meet the criteria for the right of conversion. At the end of each future quarter, the conversion rights will be reassessed in accordance with the bond indenture agreement to determine if the conversion trigger rights have been achieved.

12. INCOME TAXES

Income taxes are determined using an annual effective tax rate, which generally differs from the U.S. Federal statutory rate, primarily because of state and local income taxes, enhanced charitable contribution deductions for inventory, tax credits available in the U.S., the treatment of certain share-based payments that are not designed to normally result in tax deductions, various expenses that are not deductible for tax purposes, changes in valuation allowances against deferred tax assets and differences in tax rates in certain non-U.S. jurisdictions. The Company s effective tax rate may be subject to fluctuations during the year as new information is obtained which may affect the assumptions it uses to estimate its annual effective tax rate, including factors such as its mix of pre-tax earnings in the various tax jurisdictions in which it operates, changes in valuation allowances against deferred tax assets, reserves for tax audit issues and settlements, utilization of tax credits and changes in tax laws in jurisdictions where the Company conducts operations. The Company recognizes tax benefits only if the tax position is more likely than not of being sustained. The Company recognizes deferred tax assets and liabilities for temporary differences between the financial reporting basis and the tax basis of its assets and liabilities, along with net operating losses and credit carryforwards. The Company records valuation allowances against its deferred tax assets to reduce the net carrying value to amounts that management believes is more likely than not to be realized.

At June 30, 2010, the Company has an unrealized tax loss of $21.0 million related to the Company s option to acquire Revance or license Revance s topical product that is under development. The Company will not be able to determine the character of the loss until the Company exercises or fails to exercise its option. A realized loss characterized as a capital loss can only be utilized to offset capital gains. At June 30, 2010, the Company has recorded a valuation allowance of $7.6 million against the deferred tax asset associated with this unrealized tax loss in order to reduce the carrying value of the deferred tax asset to $0, which is the amount that management believes is more likely than not to be realized.

During the three months ended June 30, 2010 and June 30, 2009, the Company made net tax payments of $30.9 million and $2.1 million, respectively. During the six months ended June 30, 2010 and June 30, 2009, the Company made net tax payments of $47.7 million and $3.6 million, respectively.

The Company operates in multiple tax jurisdictions and is periodically subject to audit in these jurisdictions. These audits can involve complex issues that may require an extended period of time to resolve and may cover multiple years. The Company and its domestic subsidiaries file a consolidated U.S. federal income tax return. Such returns have either been audited or settled through statute expiration through 2005. The state of California is currently conducting an examination on the Company s tax returns for the periods ending June 30, 2005, December 31, 2005, December 31, 2006 and December 31, 2007. The state has proposed audit adjustments. The Company has recorded adequate accruals for these proposed adjustments.

The Company owns two subsidiaries that file corporate tax returns in Sweden. The Swedish tax authorities examined the tax return of one of the subsidiaries for fiscal 2004. The examiners issued a no change letter, and the examination is complete. The Company s other subsidiary in Sweden has not been examined by the Swedish tax authorities. The Swedish statute of limitation may be open for up to five years from the date the tax return was filed. Thus, all returns filed from fiscal 2005 forward are open under the statute of limitation.

At June 30, 2010 and December 31, 2009, the Company had $2.3 million in unrecognized tax benefits, the recognition of which would have a favorable effect of $1.7 million on the Company s effective tax rate. During the next twelve months, the Company estimates that it is reasonably possible that the amount of unrecognized tax benefits will decrease by $0.8 million due to normal statute closures.

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The Company recognizes accrued interest and penalties, if applicable, related to unrecognized tax benefits in income tax expense. The Company had approximately $0.5 million for the payment of interest and penalties accrued (net of tax benefit) at June 30, 2010 and December 31, 2009.

13. DIVIDENDS DECLARED ON COMMON STOCK

On June 9, 2010, the Company announced that its Board of Directors had declared a cash dividend of $0.06 per issued and outstanding share of the Company s Class A common stock payable on July 30, 2010, to stockholders of record at the close of business on July 1, 2010. The $3.6 million dividend was recorded as a reduction of accumulated earnings and is included in other current liabilities in the accompanying condensed consolidated balance sheets as of June 30, 2010. The Company has not adopted a dividend policy.

14. COMPREHENSIVE INCOME

Total comprehensive income includes net income and other comprehensive income (loss), which consists of foreign currency translation adjustments and unrealized gains and losses on available-for-sale investments. Total comprehensive income for the three months ended June 30, 2010 and 2009, was $36.9 million and $14.4 million, respectively. Total comprehensive income for the six months ended June 30, 2010 and 2009, was $72.9 million and $14.7 million, respectively.

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15. NET INCOME PER COMMON SHARE

The following table sets forth the computation of basic and diluted net income per common share (in thousands, except per share amounts):

	Three Months Ended		Six Months Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
BASIC				
Net income	$ 36,499	$ 15,593	$ 71,869	$ 15,921
Less: income allocated to participating securities	1,205	526	2,368	467
Net income available to common stockholders	35,294	15,067	69,501	15,454
Weighted average number of common shares outstanding	58,271	57,088	58,161	56,911
Basic net income per common share	$ 0.61	$ 0.26	$ 1.19	$ 0.27
DILUTED				
Net income	$ 36,499	$ 15,593	$ 71,869	$ 15,921
Less: income allocated to participating securities	1,205	526	2,368	467
Net income available to common stockholders	35,294	15,067	69,501	15,454
Less: Undistributed earnings allocated to unvested stockholders	(1,113)	(453)	(2,170)	(342)
Add: Undistributed earnings re-allocated to unvested stockholders	1,107	452	2,159	341
Add: Tax-effected interest expense and issue costs related to Old Notes	666	666	1,332	1,332
Tax-effected interest expense and issue costs related to New Notes			1	1

Net income assuming dilution	$ 35,954	$ 15,732	$ 70,823	$ 16,786
Weighted average number of common shares outstanding	58,271	57,088	58,161	56,911
Effect of dilutive securities:				
Old Notes	5,823	5,823	5,823	5,823
New Notes	4	4	4	4
Stock options	297	93	306	100
Weighted average number of common shares assuming dilution	64,395	63,008	64,294	62,838
Diluted net income per common share	$ 0.56	$ 0.25	$ 1.10	$ 0.27

Diluted net income per common share must be calculated using the if-converted method. Diluted net income per share using the if-converted method is calculated by adjusting net income for tax-effected net interest

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and issue costs on the Old Notes and New Notes, divided by the weighted average number of common shares outstanding assuming conversion.

Unvested share-based payment awards that contain rights to receive nonforfeitable dividends or dividend equivalents (whether paid or unpaid) are participating securities, and thus, are included in the two-class method of computing earnings per share. The two-class method is an earnings allocation formula that treats a participating security as having rights to earnings that would otherwise have been available to common stockholders. Restricted stock granted to certain employees by the Company (see Note 2) participate in dividends on the same basis as common shares, and these dividends are not forfeitable by the holders of the restricted stock. As a result, the restricted stock grants meet the definition of a participating security.

The diluted net income per common share computation for the three and six months ended June 30, 2010 excludes 8,027,204 and 8,559,315 shares of stock, respectively, that represented outstanding stock options whose exercise price were greater than the average market price of the common shares during the period and were anti-dilutive. The diluted net income per common share computation for the three and six months ended June 30, 2009 excludes 10,679,752 and 11,266,093 shares of stock, respectively, that represented outstanding stock options whose exercise price were greater than the average market price of the common shares during the period and were anti-dilutive.

16. COMMITMENTS AND CONTINGENCIES

Lease Exit Costs

In connection with occupancy of the new headquarter office, the Company ceased use of the prior headquarter office in July 2008, which consists of approximately 75,000 square feet of office space, at an average annual expense of approximately $2.1 million, under an amended lease agreement that expires in December 2010. Under ASC 420, *Exit or Disposal Cost Obligations,* a liability for the costs associated with an exit or disposal activity is recognized when the liability is incurred. The Company recorded lease exit costs of approximately $4.8 million during the three months ended September 30, 2008, consisting of the initial liability of $4.7 million and accretion expense of $0.1 million. These amounts were recorded as selling, general and administrative expenses. The Company has not recorded any other costs related to the lease for the prior headquarters, other than accretion expense.

As of June 30, 2010, approximately $1.1 million of lease exit costs remain accrued and are expected to be paid by December 2010, all of which is classified in other current liabilities. Although the facilities are no longer in use by the Company, the lease exit cost accrual has not been offset by an adjustment for estimated sublease rentals. After considering sublease market information as well as factors specific to the lease, the Company concluded it was probable it would be unable to obtain sublease rentals for the prior headquarters, and, therefore, it would not be subleased for the remaining lease term. The Company will continue to monitor the sublease market conditions and reassess the impact on the lease exit cost accrual.

The following is a summary of the activity in the liability for lease exit costs for the six months ended June 30, 2010:

	Liability as of December 31, 2009	Amounts Charged to Expense	Cash Payments Made	Cash Received from Sublease	Liability as of June 30, 2010
Lease exit costs liability	$ 2,063,677	$ 58,664	$(1,069,056)	$	$1,053,285

Legal Matters

On January 13, 2009, the Company filed suit against Mylan, Inc., Matrix Laboratories Ltd., Matrix Laboratories Inc., Sandoz, Inc. (Sandoz) and Barr Laboratories, Inc. (Barr) (collectively Defendants) in the United States District Court for the District of Delaware seeking an adjudication that Defendants have infringed one or more claims of the Company s U.S. Patent No. 5,908,838 (the 838 Patent) related to the Company s acne medication SOLODYN®, by submitting to the FDA their respective ANDAs for generic versions of SOLODYN® in its forms of 45mg, 90mg, and 135mg strengths. The relief requested by the Company included a request for a

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permanent injunction preventing Defendants from infringing the 838 Patent by selling generic versions of SOLODYN®. The expiration date for the 838 Patent is in 2018. On March 18, 2009, the Company entered into a settlement agreement with Barr, a subsidiary of Teva Pharmaceutical Industries Ltd. (Teva), whereby all legal disputes between the Company and Teva relating to SOLODYN® were terminated and whereby Barr/Teva agreed that Medicis patent-in-suit is valid, enforceable and not infringed and that it should be permanently enjoined from infringement. The Delaware court subsequently entered a permanent injunction against any infringement by Barr/Teva. On March 30, 2009, the Delaware Court dismissed the claims between the Company and Matrix Laboratories Inc. without prejudice, pursuant to a stipulation between Medicis and Matrix Laboratories Inc. On August 18, 2009, the Company entered into a Settlement Agreement with Sandoz whereby all legal disputes between the Company and Sandoz relating to SOLODYN® were terminated and whereby Sandoz agreed that Medicis patent-in-suit is valid, enforceable and not infringed and that it should be permanently enjoined from infringement. The Delaware court subsequently entered a permanent injunction against any infringement by Sandoz.

On May 6, 2009, the Company received a Paragraph IV Patent Certification from Ranbaxy Laboratories Limited (Ranbaxy Limited) advising that Ranbaxy Limited had filed an ANDA with the FDA for generic SOLODYN® in its form of 135mg strength. Ranbaxy Limited s Paragraph IV Certification alleged that Ranbaxy Limited s manufacture, use, sale or offer for sale of the product for which the ANDA was submitted would not infringe any valid claim of the Company s 838 Patent. On June 11, 2009, the Company filed suit against Ranbaxy Limited and Ranbaxy Inc. (collectively, Ranbaxy) in the United States District Court for the District of Delaware seeking an adjudication that Ranbaxy has infringed one or more claims of the 838 Patent by submitting the above ANDA to the FDA. The relief the Company requested included a request for a permanent injunction preventing Ranbaxy from infringing the 838 Patent by selling a generic version of SOLODYN®.

On September 24, 2009, the Delaware District Court held a scheduling hearing and ordered that the Mylan and Ranbaxy cases be consolidated and that in both cases trial would commence in May 2010. The parties filed opening claim construction briefs on December 15, 2009, and answering claim construction briefs on January 8, 2010. On March 25, 2010, the Delaware District Court cancelled the April 8, 2010 pretrial conference and the May 7, 2010 trial, and referred the case to Magistrate Judge Stark to hear and address the scheduling of trial and related matters.

On January 5, 2010, the Company received a Paragraph IV Patent Certification from Ranbaxy advising that Ranbaxy had filed a supplement or amendment to its earlier filed ANDA assigned ANDA #91-118 (Ranbaxy ANDA Supplement/Amendment I) with the FDA for generic SOLODYN® in its forms of 45mg and 90mg strengths. Ranbaxy s Paragraph IV Certification alleged that the Company s 838 Patent is invalid, unenforceable, and/or will not be infringed by Ranbaxy s manufacture, importation, use, sale and/or offer for sale of the products for which the Ranbaxy ANDA Supplement/Amendment I was submitted. Ranbaxy s Paragraph IV Certification also alleged that the Company s U.S. Patent No. 7,541,347 (the 347 Patent) or 7,544,373 (the 373 Patent) is not infringed by Ranbaxy s manufacture, importation, use, sale and/or offer for sale of the products for which the ANDA Supplement/Amendment I was submitted. The expiration dates for the 347 and 373 Patents are in 2027. Ranbaxy s submission as to the 45mg and 90mg strengths amended an ANDA already subject to a 30-month stay. As such, the Company believes that the Ranbaxy ANDA Supplement/Amendment I could not be approved by the FDA until after the expiration of the 30-month period or in the event of a court decision holding that the patents are invalid or not infringed. On February 16, 2010, the Company filed suit against Ranbaxy in the United States District Court for the District of Delaware seeking an adjudication that Ranbaxy infringed one or more claims of the patents by submitting the Ranbaxy ANDA Supplement/Amendment I for generic SOLODYN® in its forms of 45mg and 90mg strengths. The relief requested by the Company included a request for a permanent injunction preventing Ranbaxy from infringing the 838 patent by selling generic versions of SOLODYN®.

On April 15, 2010, the Company received a Paragraph IV Patent Certification from Ranbaxy advising that Ranbaxy had filed a supplement or amendment to its earlier filed ANDA assigned ANDA #91-118 (Ranbaxy ANDA Supplement/Amendment II) with the FDA for generic SOLODYN® in its forms of 65mg and 115mg strengths. Ranbaxy s Paragraph IV Certification alleged that the Company s 838 Patent is invalid, unenforceable, and/or will not be infringed by Ranbaxy s manufacture, importation, use, sale and/or offer for sale of the products for which the Ranbaxy ANDA Supplement/Amendment II was submitted. Ranbaxy s submission as to the 65mg and 115mg

strengths amended an ANDA already subject to a 30-month stay. As such, the Company believes that the supplement or amendment could not be approved by the FDA until after the expiration of the 30-month period or in the event of a court decision holding that the patent is invalid or not infringed.

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On May 4, 2010, the Company entered into a License and Settlement Agreement (the Ranbaxy Settlement Agreement) with Ranbaxy. Pursuant to the Settlement Agreement, the Company and Ranbaxy agreed to terminate all legal disputes between them relating to SOLODYN®. In addition, Ranbaxy confirmed that the Company s patents relating to SOLODYN® are valid and enforceable, and cover Ranbaxy s activities relating to Ranbaxy s generic SOLODYN® products under ANDA #91-118. Ranbaxy also agreed to be permanently enjoined from any distribution of generic SOLODYN® except pursuant to the terms of the Ranbaxy Settlement Agreement. Under the Ranbaxy Settlement Agreement, the Company granted to Ranbaxy a license to make and sell its generic version of SOLODYN® 45mg, 90mg and 135mg under the SOLODYN® intellectual property rights belonging to the Company commencing in November 2011, or earlier under certain conditions. The Company also granted to Ranbaxy a license to make and sell generic versions of SOLODYN® 65mg and 115mg under the Company s SOLODYN® intellectual property rights upon certain conditions but not upon any specified date in the future. The Ranbaxy Settlement Agreement provides that Ranbaxy will be required to pay the Company royalties based on sales of Ranbaxy s generic SOLODYN® products pursuant to the foregoing licenses. In addition, the Ranbaxy Settlement Agreement provides for the Company s grant to Ranbaxy of a license to make and sell a branded proprietary dermatology product currently under development by Ranbaxy, which is not therapeutically equivalent to any of the Company s currently marketed dermatology products, under certain intellectual property rights belonging to the Company, commencing the later of August 2011 or upon the sale of such product by Ranbaxy following approval by the FDA. Ranbaxy will be required to pay the Company a royalty based on sales of such product pursuant to the license.

On October 8, 2009, the Company received a Paragraph IV Patent Certification from Lupin advising that Lupin had filed an ANDA with the FDA for generic SOLODYN® in its forms of 45mg, 90mg, and 135mg strengths. Lupin did not advise the Company as to the timing or status of the FDA s review of its filing, or whether it has complied with FDA requirements for proving bioequivalence. Lupin s Paragraph IV Certification alleges that the Company s 838 Patent is invalid. Lupin s Paragraph IV Certification also alleges that the Company s 347 Patent or 373 Patent is not infringed by Lupin s manufacture, importation, use, sale and/or offer for sale of the products for which the Lupin ANDA was submitted. On November 17, 2009, the Company filed suit against Lupin in the United States District Court for the District of Maryland seeking an adjudication that Lupin has infringed one or more claims of the 838 Patent by submitting to the FDA an ANDA for generic SOLODYN® in its forms of 45mg, 90mg and 135mg strengths. The relief the Company requested includes a request for a permanent injunction preventing Lupin from infringing the 838 Patent by selling generic versions of SOLODYN®. On November 24, 2009, the Company received a Paragraph IV Patent Certification from Lupin, advising that Lupin has filed a supplement or amendment to its earlier filed ANDA assigned ANDA #91-424 (Lupin ANDA Supplement/Amendment I) with the FDA for generic SOLODYN ® in its form of 65mg strength. Lupin has not advised the Company as to the timing or status of the FDA s review of its filing, or whether Lupin has complied with FDA requirements for proving bioequivalence. Lupin s Paragraph IV Certification alleges that the Company s 838 Patent is invalid. Lupin s Paragraph IV Certification also alleges that the Company s 347 Patent or 373 Patent is not infringed by Lupin s manufacture, importation, use, sale and/or offer for sale of the products for which the Lupin ANDA Supplement/Amendment I was submitted. Lupin s submission amends an ANDA already subject to a 30-month stay. As such, the Company believes that the amendment cannot be approved by the FDA until after the expiration of the 30-month period or a court decision that the patent is invalid or not infringed.

On December 23, 2009, the Company received a Paragraph IV Patent Certification from Lupin, advising that Lupin has filed a supplement or amendment to its earlier filed ANDA assigned ANDA #91-424 (Lupin ANDA Supplement/Amendment II) with the FDA for generic SOLODYN® in its form of 115mg strength. Lupin has not advised the Company as to the timing or status of the FDA s review of its filing, or whether Lupin has complied with FDA requirements for proving bioequivalence. Lupin s Paragraph IV Certification alleges that the Company s 838 Patent is invalid. Lupin s Paragraph IV Certification also alleges that the Company s 347 Patent or 373 Patent is not infringed by Lupin s manufacture, importation, use, sale and/or offer for sale of the products for which the Lupin ANDA Supplement/Amendment II was submitted. Lupin s submission amends an ANDA already subject to a 30-month stay. As such, the Company believes that the amendment cannot be approved by the FDA until after the expiration of the 30-month period or a court decision that the patent is invalid or not infringed. On December 28,

2009, the Company amended its complaint against Lupin in the United States District Court for the District of Maryland seeking an adjudication that Lupin has infringed one or more claims of the 838 Patent by submitting its supplement or amendment to its earlier filed ANDA assigned ANDA #91-424 for generic SOLODYN® in its form of 65mg strength. On February 2, 2010, the Company amended its complaint against Lupin in the United States District Court for the District of Maryland seeking an adjudication that Lupin has infringed one or more claims of

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the 838 Patent by submitting its supplement or amendment to its earlier filed ANDA assigned ANDA #91-424 for generic SOLODYN® in its form of 115mg strength.

On November 20, 2009, the Company received a Paragraph IV Patent Certification from Barr, advising that Barr has filed a supplement to its earlier filed ANDA #65-485 (Barr ANDA Supplement) with the FDA for generic SOLODYN® in its forms of 65mg and 115mg strengths. Barr has not advised the Company as to the timing or status of the FDA s review of its filing, or whether Barr has complied with FDA requirements for proving bioequivalence. Barr s Paragraph IV Certification alleges that the Company s 838 Patent is invalid, unenforceable and/or will not be infringed by Barr s manufacture, use, sale and/or importation of the products for which the Barr ANDA Supplement was submitted. On December 28, 2009, the Company filed suit against Barr and Teva Pharmaceuticals USA, Inc., (collectively Barr/Teva USA) in the United States District Court for the District of Maryland seeking an adjudication that Barr/Teva USA has infringed one or more claims of the 838 Patent by submitting to the FDA the Barr ANDA Supplement for generic SOLODYN® in its forms of 65mg and 115mg strengths. The relief the Company requested includes a request for a permanent injunction preventing Barr/Teva USA from infringing the 838 Patent by selling generic versions of SOLODYN® in its forms of 65mg and 115mg strengths. As a result of the filing of the suit, the Company believes that the supplement to the ANDA cannot be approved by the FDA until after the expiration of a 30-month stay period or a court decision that the patent is invalid or not infringed.

On January 28, 2010, the Company received a Paragraph IV Patent Certification from Sandoz, advising that Sandoz has filed a supplement to its earlier filed ANDA #91-422 (Sandoz ANDA Supplement) with the FDA for generic SOLODYN® in its forms of 65mg and 115mg strengths. Sandoz has not advised the Company as to the timing or status of the FDA s review of its filing, or whether Sandoz has complied with FDA requirements for proving bioequivalence. Sandoz s Paragraph IV Certification alleges that the Company s 838 Patent will not be infringed by Sandoz s manufacture, use, sale and/or importation of the products for which the Sandoz ANDA Supplement was submitted because it has been granted a patent license by the Company for the 838 Patent.

On May 7, 2010, the Company received notice from Mylan Inc. that its majority owned subsidiary Matrix Laboratories Limited (Matrix) had filed an ANDA containing a Paragraph IV Patent Certification with the FDA for generic SOLODYN® in its forms of 65mg and 115mg strengths. Mylan Inc. did not advise the Company as to the timing or status of the FDA s review of Matrix s filing, or whether Matrix had complied with FDA requirements for proving bioequivalence. The Paragraph IV Certification alleged that the Company s 838 Patent is invalid and/or will not be infringed by Matrix s manufacture, use or sale of the products for which the ANDA was submitted. On June 14, 2010, the Company filed suit against Mylan Inc. and Matrix in the United States District Court for the District of Delaware seeking an adjudication that Matrix had infringed one or more claims of the Company s 838 Patent by submitting to the FDA its ANDA for generic SOLODYN® in its forms of 65mg and 115mg strengths. The relief requested by the Company included a request for a permanent injunction preventing Matrix from infringing the 838 Patent by selling generic versions of SOLODYN®. As a result of the filing of the suit, the Company believes that the ANDA could not be approved by the FDA until after the expiration of a 30-month stay period or a court decision that the 838 Patent is invalid or not infringed.

A third party requested that the U.S. Patent and Trademark Office (USPTO) conduct an Ex Parte Reexamination of the 838 Patent. The USPTO granted this request. In March 2009, the USPTO issued a non-final office action in the reexamination of the 838 Patent. On May 13, 2009, Medicis filed its response to the non-final office action with the USPTO, canceling certain claims and adding amended claims. On November 10, 2009, the USPTO issued a second non-final office action in the reexamination of the 838 Patent. On January 8, 2010, the Company filed its response to the non-final office action with the USPTO. On March 17, 2010, the Company received a Notice of Intent to Issue a Reexamination Certificate issued by the USPTO in connection with the USPTO s reexamination of the 838 Patent. On June 1, 2010, the Company received the Reexamination Certificate (the Reexamination Certificate) from the USPTO. The Reexamination Certificate is directed to patentable claims 3, 4, 12, and 13, as well as new claims 19-34. The USPTO determined that the claims are patentable, including over all the cited prior art. The claims are the subject of patent infringement lawsuits filed by the Company in Maryland.

On July 1, 2010, the Company amended its complaint against Lupin in the United States District Court for the District of Maryland relating to Lupin s filing of its ANDA, and amendments or supplements thereto, for generic

SOLODYN® in its forms of 45mg, 65mg, 90mg, 115mg and 135mg strengths. The Company amended the complaint to assert new claims 19, 21, 23, 25 and 27-34 included in the Reexamination Certificate. The complaint

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seeks an adjudication that Lupin has infringed one or more claims of the 838 Patent, including the new claims, by submitting the ANDA, and amendments or supplements thereto, to the FDA.

On July 8, 2010, the Company amended its complaint against Mylan Inc. and Matrix in the United States District Court for the District of Delaware relating to Matrix s filing of its ANDA for generic SOLODYN® in its forms of 45mg, 90mg and 135mg strengths. The Company amended the complaint to assert new claims 19, 21, 23, 25 and 27-34 included in the Reexamination Certificate. The complaint sought an adjudication that Matrix had infringed one or more claims of the 838 Patent, including the new claims, by submitting the ANDA to the FDA.

On July 22, 2010, the Company entered into a Settlement Agreement and a License Agreement (the Mylan License Agreement) with Mylan Inc. and certain of its affiliates, including Matrix and Mylan Pharmaceuticals Inc. (collectively, Mylan). Pursuant to the agreements, the companies agreed to terminate all legal disputes between them relating to SOLODYN®. In addition, Mylan confirmed that the Company s patents relating to SOLODYN® are valid and enforceable, and cover Mylan s activities relating to Mylan s generic SOLODYN® products under its ANDAs described above. Mylan also acknowledged that any prior sales of its generic SOLODYN® products were not authorized by the Company, and agreed to be permanently enjoined from any further distribution of generic SOLODYN® products except pursuant to the Mylan License Agreement as described below. The Company agreed to release Mylan from liability arising from any prior sales of its generic SOLODYN® products that were not authorized by the Company. Under the Mylan License Agreement, the Company granted to Mylan a license to make and sell its generic versions of SOLODYN® 45mg, 90mg and 135mg under the SOLODYN® intellectual property rights belonging to the Company commencing in November 2011, or earlier under certain conditions. The Company also granted to Mylan a license to make and sell generic versions of SOLODYN® 65mg and 115mg under the Company s SOLODYN® intellectual property rights upon certain conditions, but not upon any specified date in the future. The Mylan License Agreement provides that Mylan will be required to pay the Company royalties based on sales of Mylan s generic SOLODYN® products pursuant to the foregoing licenses.

On July 9, 2010, the Company amended its complaint against Barr/Teva USA in the United States District Court for the District of Maryland relating to Barr/Teva USA s filing of its ANDA for generic SOLODYN® in its forms of 65mg and 115mg strengths. The Company amended the complaint to assert new claims 19, 21, 23, 25 and 27-34 included in the Reexamination Certificate. The complaint seeks an adjudication that Barr/Teva USA has infringed one or more claims of the 838 Patent, including the new claims, by submitting the ANDA to the FDA.

On March 17, 2010, the Company received a Paragraph IV Patent Certification from Taro Pharmaceuticals U.S.A., Inc. (Taro U.S.A.) advising that Taro U.S.A. has filed an ANDA with the FDA for a generic version of VANOS® (fluocinonide) Cream 0.1%. Taro U.S.A. has not advised the Company as to the timing or status of the FDA s review of its filing, or whether Taro U.S.A. has complied with FDA requirements for proving bioequivalence. Taro U.S.A. s Paragraph IV Certification alleges that the Company s U.S. Patent No. 6,765,001 (the 001 Patent) and U.S. Patent No. 7,220,424 (the 424 Patent) will not be infringed by Taro U.S.A. s manufacture, use, sale or importation of the product for which the ANDA was submitted, and that claim 3 of the 424 Patent is invalid. On April 28, 2010, the Company filed suit against Taro U.S.A. and Taro Pharmaceuticals Industries, Ltd. (collectively, Taro) in the United States District Court for the District of Delaware and the United States District Court for the Southern District of New York seeking an adjudication that Taro has infringed one or more claims of the 001 Patent, the 424 Patent and the Company s U.S. Patent No. 7,217,422 (the 422 Patent) by submitting the ANDA to the FDA. The relief requested by the Company includes a request for a permanent injunction preventing Taro from infringing the patents by selling a generic version of VANOS® prior to the expiration of the asserted patents.

On April 7, 2010, the Company received a Paragraph IV Patent Certification from Nycomed US Inc. (Nycomed) advising that Nycomed has filed an ANDA with the FDA for a generic version of VANOS® (fluocinonide) Cream 0.1%. Nycomed has not advised the Company as to the timing or status of the FDA s review of its filing, or whether Nycomed has complied with FDA requirements for proving bioequivalence. Nycomed s Paragraph IV Certification alleges that the Company s 001 Patent and 424 Patent will not be infringed by Nycomed s manufacture, use, sale, offer for sale or importation of the product for which the ANDA was submitted. On May 19, 2010, the Company filed suit against Nycomed and Nycomed GmbH in the United States District Court for the District of Delaware and the United States District Court for the Southern District of New York seeking an

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adjudication that Nycomed has infringed one or more claims of the Company s 001 Patent, 424 Patent and 422 Patent by submitting the ANDA to the FDA. The relief requested by the Company includes a request for a permanent injunction preventing Nycomed from infringing the patents by selling a generic version of VANOS® prior to the expiration of the asserted patents.

On July 28, 2010, the Company filed suit against Stiefel Laboratories, Inc., a subsidiary of GlaxoSmithKline plc (Stiefel), in the United States District Court for the Western District of Texas San Antonio Division seeking a declaratory judgment that the manufacture and sale of Stiefel s acne product VELTIN Gel, which was recently approved by the FDA, will infringe one or more claims of the Company s U.S. Patent No. RE41,134 (the 134 Patent) covering the Company s product ZIANA® Gel, a prescription topical gel indicated for the treatment of acne that was approved by the FDA in November 2006. The 134 Patent is listed in the FDA s *Approved Drug Products with Therapeutic Equivalence Evaluations* (Orange Book) and expires in February 2015. The Company has rights to the 134 Patent pursuant to an exclusive license agreement with the owner of the patent. The relief requested by the Company in the lawsuit includes a request for a permanent injunction preventing Stiefel from infringing the 134 Patent by engaging in the commercial manufacture, use, importation, offer to sell, or sale of any therapeutic composition or method of use covered by the 134 Patent, including such activities relating to VELTIN , and from inducing or contributing to any such activities.

On October 3, 10, and 27, 2008, purported stockholder class action lawsuits styled Andrew Hall v. Medicis Pharmaceutical Corp., et al. (Case No. 2:08-cv-01821-MHB); Steamfitters Local 449 Pension Fund v. Medicis Pharmaceutical Corp., et al. (Case No. 2:08-cv-01870-DKD); and Darlene Oliver v. Medicis Pharmaceutical Corp., et al. (Case No. 2:08-cv-01964-JAT) were filed in the United States District Court for the District of Arizona on behalf of stockholders who purchased securities of the Company during the period between October 30, 2003 and approximately September 24, 2008. The Court consolidated these actions into a single proceeding and on May 18, 2009 an amended complaint was filed alleging violations of the federal securities laws arising out of the Company s restatement of its consolidated financial statements in 2008. On December 2, 2009, the court dismissed the consolidated amended complaint without prejudice, and on January 18, 2010 the lead plaintiff filed a second amended complaint. On February 19, 2010, the Company and the other defendants filed motions to dismiss the second amended complaint in its entirety on various grounds. The Company will continue to vigorously defend the claims in these consolidated matters. There can be no assurance, however, that the Company will be successful, and an adverse resolution of the lawsuits could have a material adverse effect on the Company s financial position and results of operations in the period in which the lawsuits are resolved. The Company is not presently able to reasonably estimate potential losses, if any, related to the lawsuits.

In addition to the matters discussed above, in the ordinary course of business, the Company is involved in a number of legal actions, both as plaintiff and defendant, and could incur uninsured liability in any one or more of them. Although the outcome of these actions is not presently determinable, it is the opinion of the Company s management, based upon the information available at this time, that the expected outcome of these matters, individually or in the aggregate, will not have a material adverse effect on the results of operations, financial condition or cash flows of the Company.

17. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In October 2009, the FASB approved for issuance Accounting Standards Update (ASU) No. 2009-13, *Revenue Recognition* (ASC 605) *Multiple Deliverable Revenue Arrangements*, a consensus of EITF 08-01, *Revenue Arrangements with Multiple Deliverables.* This guidance modifies the fair value requirements of ASC subtopic 605-25 *Revenue Recognition Multiple Element Arrangements* by providing principles for allocation of consideration among its multiple-elements, allowing more flexibility in identifying and accounting for separate deliverables under an arrangement. An estimated selling price method is introduced for valuing the elements of a bundled arrangement if vendor-specific objective evidence or third-party evidence of selling price is not available, and significantly expands related disclosure requirements. This updated guidance is effective on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Alternatively, adoption may be on a retrospective basis, and early application is permitted. The Company is currently assessing what impact, if any, the updated guidance will have on its results of operations and financial condition.

In March 2010, the FASB approved for issuance ASU No. 2010-17, *Revenue Recognition-Milestone Method* (Topic 605): *Milestone Method of Revenue Recognition*. The updated guidance recognizes the milestone method as an acceptable revenue recognition method for substantive milestones in research or development transactions, and is

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effective on a prospective basis for milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010. Early adoption is permitted. The Company is currently assessing what impact, if any, the updated guidance will have on its results of operations and financial condition.

18. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through the date of issuance of its financial statements.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Executive Summary

We are a leading independent specialty pharmaceutical company focused primarily on helping patients attain a healthy and youthful appearance and self-image through the development and marketing in the U.S. of products for the treatment of dermatological and aesthetic conditions. We also market products in Canada for the treatment of dermatological and aesthetic conditions and began commercial efforts in Europe with our acquisition of LipoSonix in July 2008. We offer a broad range of products addressing various conditions or aesthetics improvements, including facial wrinkles, acne, fungal infections, rosacea, hyperpigmentation, photoaging, psoriasis, seborrheic dermatitis and cosmesis (improvement in the texture and appearance of skin).

Our current product lines are divided between the dermatological and non-dermatological fields. The dermatological field represents products for the treatment of acne and acne-related dermatological conditions and non-acne dermatological conditions. The non-dermatological field represents products for the treatment of urea cycle disorder, non-invasive body sculpting technology and contract revenue. Our acne and acne-related dermatological product lines include DYNACIN®, PLEXION®, SOLODYN®, TRIAZ® and ZIANA®. Our non-acne dermatological product lines include DYSPORT®, LOPROX®, PERLANE®, RESTYLANE® and VANOS®. Our non-dermatological product lines include AMMONUL®, BUPHENYL® and the LIPOSONIX™ system. Our non-dermatological field also includes contract revenues associated with licensing agreements and authorized generic agreements.

Financial Information About Segments

We operate in one business segment: pharmaceuticals. Our current pharmaceutical franchises are divided between the dermatological and non-dermatological fields. Information on revenues, operating income, identifiable assets and supplemental revenue of our business franchises appears in the condensed consolidated financial statements included in Item 1 hereof.

Key Aspects of Our Business

We derive a majority of our revenue from our primary products: DYSPORT®, PERLANE®, RESTYLANE®, SOLODYN®, TRIAZ®, VANOS® and ZIANA®. We believe that sales of our primary products will constitute a significant portion of our revenue for 2010.

We have built our business by executing a four-part growth strategy: promoting existing brands, developing new products and important product line extensions, entering into strategic collaborations and acquiring complementary products, technologies and businesses. Our core philosophy is to cultivate high integrity relationships of trust and confidence with the foremost dermatologists and the leading plastic surgeons in the U.S. We rely on third parties to manufacture our products (except for the LIPOSONIX™ system).

We estimate customer demand for our prescription products primarily through use of third party syndicated data sources which track prescriptions written by health care providers and dispensed by licensed pharmacies. The data represents extrapolations from information provided only by certain pharmacies and are estimates of historical demand levels. We estimate customer demand for our non-prescription products primarily through internal data that we compile. We observe trends from these data and, coupled with certain proprietary information, prepare demand forecasts that are the basis for purchase orders for finished and component inventory from our third party manufacturers and suppliers. Our forecasts may fail to accurately anticipate ultimate customer demand for our products. Overestimates of demand and sudden changes in market conditions may result in excessive inventory production and underestimates may result in inadequate supply of our products in channels of distribution.

We schedule our inventory purchases to meet anticipated customer demand. As a result, miscalculation of customer demand or relatively small delays in our receipt of manufactured products could result in revenues being deferred or lost. Our operating expenses are based upon anticipated sales levels, and a high percentage of our operating expenses are relatively fixed in the short term.

We sell our products primarily to major wholesalers and retail pharmacy chains. Approximately 65-75% of our gross revenues are typically derived from two major drug wholesale concerns. Depending on the customer, we

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recognize revenue at the time of shipment to the customer, or at the time of receipt by the customer, net of estimated provisions. As a result of certain amendments made to our distribution services agreement with McKesson, our exclusive U.S. distributor of our aesthetics products DYSPORT®, PERLANE® and RESTYLANE®, we began recognizing revenue on these products upon the shipment from McKesson to physicians beginning in the second quarter of 2009. Consequently, variations in the timing of revenue recognition could cause significant fluctuations in operating results from period to period and may result in unanticipated periodic earnings shortfalls or losses. We have distribution services agreements with our two largest wholesale customers. We review the supply levels of our significant products sold to major wholesalers by reviewing periodic inventory reports that are supplied to us by our major wholesalers in accordance with the distribution services agreements. We rely wholly upon our wholesale and drug chain customers to effect the distribution allocation of substantially all of our prescription products. We believe our estimates of trade inventory levels of our products, based on our review of the periodic inventory reports supplied by our major wholesalers and the estimated demand for our products based on prescription and other data, are reasonable. We further believe that inventories of our products among wholesale customers, taken as a whole, are similar to those of other specialty pharmaceutical companies, and that our trade practices, which periodically involve volume discounts and early payment discounts, are typical of the industry.

We periodically offer promotions to wholesale and chain drugstore customers to encourage dispensing of our prescription products, consistent with prescriptions written by licensed health care providers. Because many of our prescription products compete in multi-source markets, it is important for us to ensure the licensed health care providers dispensing instructions are fulfilled with our branded products and are not substituted with a generic product or another therapeutic alternative product which may be contrary to the licensed health care providers recommended and prescribed Medicis brand. We believe that a critical component of our brand protection program is maintenance of full product availability at drugstore and wholesale customers. We believe such availability reduces the probability of local and regional product substitutions, shortages and backorders, which could result in lost sales. We expect to continue providing favorable terms to wholesale and retail drug chain customers as may be necessary to ensure the fullest possible distribution of our branded products within the pharmaceutical chain of commerce. From time to time we may enter into business arrangements (e.g., loans or investments) involving our customers and those arrangements may be reviewed by federal and state regulators.

Purchases by any given customer, during any given period, may be above or below actual prescription volumes of any of our products during the same period, resulting in fluctuations of product inventory in the distribution channel.

Recent Developments

As described in more detail below, the following significant events and transactions occurred during the six months ended June 30, 2010, and affected our results of operations, our cash flows and our financial condition:

- FDA approval of RESTYLANE-L™ and PERLANE-L™;
- Increase of our quarterly dividend from $0.04 per share to $0.06 per share;
- Notice of Allowance received from the USPTO for a patent application related to SOLODYN®; and
- Reexamination Certificate received from the USPTO related to SOLODYN®.

FDA approval of RESTYLANE-L™ and PERLANE-L™

On January 29, 2010, the FDA approved our dermal fillers RESTYLANE-L™ and PERLANE-L™, which include the addition of 0.3% lidocaine. RESTYLANE-L™ is approved for implantation into the mid to deep dermis, and PERLANE-L™ is approved for implantation into the deep dermis to superficial subcutis, both for the correction of moderate to severe facial wrinkles and folds, such as nasolabial folds. We began shipping RESTYLANE-L™ and PERLANE-L™ during February 2010.

Increase of our quarterly dividend from $0.04 per share to $0.06 per share

On March 10, 2010, we announced that our Board of Directors had declared a cash dividend of $0.06 per issued and outstanding share of our Class A common stock, payable on April 30, 2010, to stockholders of record at the close of business on April 1, 2010. This represented a 50% increase compared to our previous $0.04 dividend. On June 9, 2010, we announced that our Board of Directors had declared a cash dividend of $0.06 per issued and

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outstanding share of our Class A common stock payable on July 30, 2010, to our stockholders of record at the close of business on July 1, 2010.

Notice of Allowance received from the USPTO related to SOLODYN®

On April 2, 2010, we received a second Notice of Allowance from the U.S. Patent and Trademark Office (USPTO) for our U.S. patent application No. 11/166,817, entitled Method For The Treatment Of Acne (the 817 Application). The USPTO initially issued a Notice of Allowance for the 817 Application in October 2009; however, we filed a Request for Continued Examination with the USPTO in the 817 Application in November 2009 so that the USPTO could consider references filed in the Reexamination of our U.S. Patent No. 5,908,838. The newly allowed claims under the 817 Application cover methods of using a controlled-release oral dosage form of minocycline to treat acne, including the use of our product SOLODYN® (minocycline HCl, USP) Extended Release Tablets in all five currently available dosage forms.

Reexamination Certificate received from the USPTO related to SOLODYN®

On June 1, 2010, we received a Reexamination Certificate issued by the USPTO in connection with the USPTO s reexamination of U.S. Patent No. 5,908,838 related to our acne medication SOLODYN®. The Reexamination Certificate is directed to patentable claims 3, 4, 12, and 13, as well as new claims 19-34. The USPTO determined that the claims are patentable, including over all the cited prior art. The claims are the subject of patent infringement lawsuits filed by the Company in Maryland.

Subsequent Event

On July 20, 2010, we received a Notice of Allowance issued by the USPTO for our U.S. patent application directed to the use of SOLODYN ® in all five currently available dosage forms. The patent application is U.S. Application No. 12/253,845, entitled Minocycline Oral Dosage Forms For The Treatment of Acne. The newly allowed claims are directed to methods of treating acne using controlled-release oral dosage forms of minocycline.

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Results of Operations

The following table sets forth certain data as a percentage of net revenues for the periods indicated.

	Three Months Ended		Six Months Ended	
	June 30, 2010 (a)	June 30, 2009 (b)	June 30, 2010 (c)	June 30, 2009 (d)
Net revenues	100.0%	100.0%	100.0%	100.0%
Gross profit (e)	90.5	90.7	90.5	90.7
Operating expenses	56.7	64.9	56.3	75.7
Operating income	33.8	25.8	34.2	15.0
Other income (expense), net		1.6	(0.1)	(0.3)
Interest and investment (expense) income, net	(0.2)	0.8	(0.1)	1.1
Income before income tax expense	33.6	28.2	34.0	15.8
Income tax expense	(12.7)	(17.2)	(13.0)	(9.1)
Net income	20.9%	11.0%	21.0%	6.7%

(a) Included in operating expenses is $2.3 million (1.3% of net revenues) of compensation expense related to stock options, restricted stock and stock appreciation rights.

(b) Included in operating expenses is $5.0 million (3.6% of net revenues) of compensation expense related to stock options, restricted stock and stock appreciation rights and $3.0 million

(2.1% of net revenues) paid to Perrigo related to a product development agreement.

(c) Included in operating expenses is $5.4 million (1.6% of net revenues) of compensation expense related to stock options, restricted stock and stock appreciation rights.

(d) Included in operating expenses is $5.0 million (2.1% of net revenues) paid to IMPAX related to a product development agreement, $3.0 million (1.2% of net revenues) paid to Perrigo related to a product development agreement and $8.9 million (3.7% of net revenues) of compensation expense related to stock options, restricted stock and stock appreciation rights.

(e) Gross profit does not include amortization of the related intangibles as such expense is included in operating expenses.

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Three Months Ended June 30, 2010 Compared to the Three Months Ended June 30, 2009
Net Revenues

The following table sets forth our net revenues for the three months ended June 30, 2010 (the second quarter of 2010) and June 30, 2009 (the second quarter of 2009), along with the percentage of net revenues and percentage point change for each of our product categories (dollar amounts in millions):

	Second Quarter 2010	Second Quarter 2009	$ Change	% Change
Net product revenues	$172.2	$ 138.7	$33.5	24.2%
Net contract revenues	1.8	2.5	(0.7)	(28.0)%
Total net revenues	$174.0	$ 141.2	$32.8	23.2%

	Second Quarter 2010	Second Quarter 2009	$ Change	% Change
Acne and acne-related dermatological products	$124.7	$ 94.2	$30.5	32.4%
Non-acne dermatological products	41.0	37.1	3.9	10.5%
Non-dermatological products (including contract revenues)	8.3	9.9	(1.6)	(16.2)%
Total net revenues	$174.0	$ 141.2	$32.8	23.2%

	Second Quarter 2010	Second Quarter 2009	Change
Acne and acne-related dermatological products	71.7%	66.7%	5.0%
Non-acne dermatological products	23.6%	26.3%	(2.7)%
Non-dermatological products (including contract revenues)	4.7%	7.0%	(2.3)%
Total net revenues	100.0%	100.0%	

Net revenues associated with our acne and acne-related dermatological products increased by $30.5 million, or 32.4%, during the second quarter of 2010 as compared to the second quarter of 2009 primarily as a result of increased sales of SOLODYN® and ZIANA®, both of which were generated by strong prescription growth. In addition, during the third quarter of 2009 we launched new 65mg and 115mg strengths of SOLODYN® after they were approved by the FDA.

Net revenues associated with our non-acne dermatological products increased by $3.9 million, or 10.5% during the second quarter of 2010 as compared to the second quarter of 2009, primarily due to increased sales of DYSPORT®, which was launched in June 2009, and increased sales of RESTYLANE®, partially offset by a decrease in sales of LOPROX®, which was negatively impacted by generic competition. RESTYLANE-L™ and

PERLANE-L™ were launched during February 2010 following FDA approval on January 29, 2010. Net revenues associated with our non-acne dermatological products decreased as a percentage of net revenues during the second quarter of 2010 as compared to the second quarter of 2009, primarily due to the $30.5 million increase in our acne and acne-related dermatological products.

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Net revenues associated with our non-dermatological products decreased by $1.6 million, or 16.2%, during the second quarter of 2010 as compared to the second quarter of 2009 primarily due to a decrease in sales of BUPHENYL® and a reduction in contract revenue.

Gross Profit

Gross profit represents our net revenues less our cost of product revenue. Our cost of product revenue includes our acquisition cost for the products we purchase from our third party manufacturers and royalty payments made to third parties. Amortization of intangible assets related to products sold is not included in gross profit. Amortization expense related to these intangibles for the second quarter of 2010 and 2009 was approximately $5.4 million and $6.2 million, respectively. Product mix plays a significant role in our quarterly and annual gross profit as a percentage of net revenues. Different products generate different gross profit margins, and the relative sales mix of higher gross profit products and lower gross profit products can affect our total gross profit.

The following table sets forth our gross profit for the second quarter of 2010 and 2009, along with the percentage of net revenues represented by such gross profit (dollar amounts in millions):

	Second Quarter 2010	Second Quarter 2009	$ Change	% Change
Gross profit	$ 157.5	$ 128.2	$29.3	22.9%
% of net revenues	90.5%	90.7%		

The increase in gross profit during the second quarter of 2010 as compared to the second quarter of 2009 is primarily due to the $32.8 million increase in net revenues. Gross profit as a percentage of net revenues was 90.5% during the second quarter of 2010, as compared to 90.7% during the second quarter of 2009. Net revenues of SOLODYN®, a high gross margin product, increased during the second quarter of 2010 as compared to the second quarter of 2009, while net revenues of other products, which have lower gross margins, also increased.

Selling, General and Administrative Expenses

The following table sets forth our selling, general and administrative expenses for the second quarter of 2010 and 2009, along with the percentage of net revenues represented by selling, general and administrative expenses (dollar amounts in millions):

	Second Quarter 2010	Second Quarter 2009	$ Change	% Change
Selling, general and administrative	$ 80.9	$ 71.7	$ 9.2	12.8%
% of net revenues	46.5%	50.7%		
Share-based compensation expense included in selling, general and administrative	$ 2.2	$ 4.8	$(2.6)	(54.2)%

Selling, general and administrative expenses increased $9.2 million, or 12.8%, during the second quarter of 2010 as compared to the second quarter of 2009, but decreased as a percentage of net revenues from 50.7% during the second quarter of 2009 to 46.5% during the second quarter of 2010. Included in this increase was a $5.2 million increase in personnel expenses, primarily due to $2.9 million of severance expense related to the departure of an executive employee, and an increase of $4.0 million of other selling, general and administrative costs. The decrease of selling, general and administrative expenses as a percentage of net revenues during the second quarter of 2010 as compared to the second quarter of 2009 was primarily due to the $32.8 million increase in net revenues.

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Research and Development Expenses

The following table sets forth our research and development expenses for the second quarter of 2010 and 2009 (dollar amounts in millions):

	Second Quarter 2010	Second Quarter 2009	$ Change	% Change
Research and development	$10.5	$12.1	$(1.6)	(13.2)%
Charges included in research and development	$	$ 3.0	$(3.0)	(100.0)%
Share-based compensation expense included in research and development	$ 0.1	$ 0.2	$(0.1)	(50.0)%

Included in research and development expenses for the second quarter of 2009 was a $3.0 million payment to Perrigo related to a development agreement. We expect research and development expenses to continue to fluctuate from quarter to quarter based on the timing of the achievement of development milestones under license and development agreements, as well as the timing of other development projects and the funds available to support these projects.

Depreciation and Amortization Expenses

Depreciation and amortization expenses during the second quarter of 2010 were $7.2 million, as compared to $7.9 million during the second quarter of 2009. The decrease was primarily due amortization expense related to intangible assets related to Medicis Pediatrics, Inc., which was sold to BioMarin Pharmaceutical Inc. during the second quarter of 2009, not being incurred during the second quarter of 2010.

Interest and Investment Income

Interest and investment income during the second quarter of 2010 decreased $1.4 million, or 63.9%, to $0.8 million from $2.2 million during the second quarter of 2009, due to a decrease in the interest rates achieved by our invested funds during the second quarter of 2010.

Interest Expense

Interest expense during the second quarter of 2010 and the second quarter of 2009 was $1.1 million. Our interest expense during the second quarter of 2010 and 2009 consisted of interest expense on our Old Notes, which accrue interest at 2.5% per annum, and our New Notes, which accrue interest at 1.5% per annum. See Note 11 in our accompanying condensed consolidated financial statements for further discussion on the Old Notes and New Notes.

Other Income, net

Other income, net, of $2.2 million recognized during the second quarter of 2009 primarily represented the $2.2 million gain on the sale of Medicis Pediatrics to BioMarin that closed during June 2009.

Income Tax Expense

Our effective tax rate for the second quarter of 2010 was 37.7%, as compared to 60.9% for the second quarter of 2009. The effective tax rate for the second quarter of 2009 reflects a $9.0 million discrete tax expense due to the taxable gain on the sale of Medicis Pediatrics. Excluding this discrete tax expense (and the associated accounting gain of $2.2 million), the effective tax rate for the second quarter of 2009 was 40.5%.

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Six Months Ended June 30, 2010 Compared to the Six Months Ended June 30, 2009
Net Revenues

The following table sets forth our net revenues for the six months ended June 30, 2010 (the 2010 six months) and June 30, 2009 (the 2009 six months), along with the percentage of net revenues and percentage point change for each of our product categories (dollar amounts in millions):

	2010 Six Months	2009 Six Months	$ Change	% Change
Net product revenues	$336.7	$235.3	$101.4	43.1%
Net contract revenues	3.8	5.8	(2.0)	(34.5)%
Total net revenues	$340.5	$241.1	$ 99.4	41.2%

	2010 Six Months	2009 Six Months	$ Change	% Change
Acne and acne-related dermatological products	$245.0	$160.6	$84.4	52.6%
Non-acne dermatological products	75.2	60.6	14.6	24.1%
Non-dermatological products (including contract revenues)	20.3	19.9	0.4	2.0%
Total net revenues	$340.5	$241.1	$99.4	41.2%

	2010 Six Months	2009 Six Months	Change
Acne and acne-related dermatological products	71.9%	66.7%	5.2%
Non-acne dermatological products	22.1%	25.1%	(3.0)%
Non-dermatological products (including contract revenues)	6.0%	8.2%	(2.2)%
Total net revenues	100.0%	100.0%	%

Net revenues associated with our acne and acne-related dermatological products increased by $84.4 million, or 52.6%, during the 2010 six months as compared to the 2009 six months primarily as a result of increased sales of SOLODYN® and ZIANA®, both of which generated strong prescription growth. Net revenues of SOLODYN® during the 2009 six months were negatively impacted by the unauthorized one-day launch of Teva s generic SOLODYN® product units that were sold into the distribution channel prior to the consummation of a Settlement Agreement with us on March 18, 2009. These units caused wholesalers to reduce ordering levels of SOLODYN® and caused us to increase our reserves for sales returns and consumer rebates during the first quarter of 2009. In addition, during the third quarter of 2009 we launched new 65mg and 115mg strengths of SOLODYN® after they were approved by the FDA.

Net revenues associated with our non-acne dermatological products increased by $14.6 million, or 24.1% during the 2010 six months as compared to the 2009 six months, primarily due to sales of DYSPORT®, which was launched in June 2009, and increased sales of RESTYLANE®. RESTYLANE-L™ and PERLANE-L™ were launched during

February 2010 following FDA approval on January 29, 2010. Net revenues associated with our non-acne dermatological products decreased as a percentage of net revenues during the 2010 six months as

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compared to the 2009 six months, primarily due to the $84.4 million increase in our acne and acne-related dermatological products. Beginning in the second quarter of 2009, as a result of certain modifications made to our distribution services agreement with McKesson, our exclusive U.S. distributor of our aesthetics products RESTYLANE®, PERLANE® and DYSPORT®, we began recognizing revenue on these products upon the shipment from McKesson to physicians. As a result, aesthetic product net revenues were negatively impacted during the first quarter of 2009 in anticipation of this change in revenue recognition.

Net revenues associated with our non-dermatological products increased by $0.4 million, or 2.0%, during the 2010 six months as compared to the 2009 six months primarily due to an increase in sales of BUPHENYL®.

Gross Profit

Gross profit represents our net revenues less our cost of product revenue. Our cost of product revenue includes our acquisition cost for the products we purchase from our third party manufacturers and royalty payments made to third parties. Amortization of intangible assets related to products sold is not included in gross profit. Amortization expense related to these intangibles for the 2010 six months and 2009 six months was approximately $10.7 million and $11.7 million, respectively. Product mix plays a significant role in our quarterly and annual gross profit as a percentage of net revenues. Different products generate different gross profit margins, and the relative sales mix of higher gross profit products and lower gross profit products can affect our total gross profit.

The following table sets forth our gross profit for the 2010 six months and 2009 six months, along with the percentage of net revenues represented by such gross profit (dollar amounts in millions):

	2010 Six Months	2009 Six Months	$ Change	% Change
Gross profit	$308.3	$218.6	$89.7	41.0%
% of net revenues	90.5%	90.7%		

The increase in gross profit during the 2010 six months as compared to the 2009 six months is primarily due to the $99.4 million increase in net revenues. Gross profit as a percentage of net revenues was 90.5% during the 2010 six months, as compared to 90.7% during 2009 six months. Net revenues of SOLODYN®, a high gross margin product, increased during the 2010 six months as compared to the 2009 six months, while net revenues of other products, which have lower gross margins, also increased.

Selling, General and Administrative Expenses

The following table sets forth our selling, general and administrative expenses for the 2010 six months and 2009 six months, along with the percentage of net revenues represented by selling, general and administrative expenses (dollar amounts in millions):

	2010 Six Months	2009 Six Months	$ Change	% Change
Selling, general and administrative	$156.8	$142.1	$14.7	10.3%
% of net revenues	46.1%	58.9%		
Share-based compensation expense included in selling, general and administrative expense	$ 5.2	$ 8.5	$ (3.3)	(38.8)%

Selling, general and administrative expenses increased $14.7 million, or 10.3%, during the 2010 six months as compared to the 2009 six months, but decreased as a percentage of net revenues from 58.9% during the 2009 six months to 46.1% during the 2010 six months. Included in this increase was a $6.5 million increase in personnel costs, primarily due to the effect of the annual salary increase that occurred during February 2010 and $2.9 million of severance expense related to the departure of an executive employee, a $4.9 million increase in promotion expenses, primarily related to the promotion of DYSPORT® and an increase of $3.3 million of other selling, general and administrative costs. The decrease of selling, general and administrative expenses as a percentage of net revenues during the 2010 six months as compared to the 2009 six months was primarily due to the $99.4 million increase in net

revenues.

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Research and Development Expenses

The following table sets forth our research and development expenses for the 2010 six months and 2009 six months (dollar amounts in millions):

	2010 Six Months	2009 Six Months	$ Change	% Change
Research and development	$20.7	$25.3	$(4.6)	(18.2)%
Charges included in research and development	$	$ 8.0	$(8.0)	(100.0)%
Share-based compensation expense included in research and development	$ 0.2	$ 0.4	$(0.2)	(50.0)%

Included in research and development expenses for the 2009 six months was a $5.0 million milestone payment to Impax related to a development agreement and a $3.0 million payment to Perrigo related to a development agreement. We expect research and development expenses to continue to fluctuate from quarter to quarter based on the timing of the achievement of development milestones under license and development agreements, as well as the timing of other development projects and the funds available to support these projects.

Depreciation and Amortization Expenses

Depreciation and amortization expenses during the 2010 six months were $14.3 million, as compared to $15.1 million during the 2009 six months. An increase related to amortization of the $75.0 million milestone payment made to Ipsen during the second quarter of 2009 upon the FDA s approval of DYSPORT®, which was capitalized as an intangible asset, was offset by the amortization expense related to intangible assets related to Medicis Pediatrics, Inc., which was sold to BioMarin Pharmaceutical Inc. during the second quarter of 2009, not being incurred during the 2010 six months.

Interest and Investment Income

Interest and investment income during the 2010 six months decreased $2.7 million, or 58.2%, to $1.9 million from $4.6 million during the 2009 six months, due to a decrease in the interest rates achieved by our invested funds during the 2010 six months.

Interest Expense

Interest expense during the 2010 six months and the 2009 six months was $2.1 million. Our interest expense during the 2010 six months and 2009 six months consisted of interest expense on our Old Notes, which accrue interest at 2.5% per annum, and our New Notes, which accrue interest at 1.5% per annum. See Note 11 in our accompanying condensed consolidated financial statements for further discussion on the Old Notes and New Notes.

Other Expense, net

Other expense of $0.3 million recognized during the 2010 six months represented an other-than-temporary impairment on an asset-backed security investment.

Other expense, net, of $0.6 million recognized during the 2009 six months primarily represented a $2.9 million reduction in the carrying value of our investment in Revance as a result of a reduction in the estimated net realizable value of the investment using the hypothetical liquidation at book value approach as of March 31, 2009, partially offset by a $2.2 million gain on the sale of Medicis Pediatrics to BioMarin, which closed during June 2009.

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Income Tax Expense

Our effective tax rate for the 2010 six months was 38.1%, as compared to 58.0% for the 2009 six months. The effective tax rate for the 2009 six months reflects a $1.4 million discrete tax benefit recognized due to statute closures and a $9.0 million discrete tax expense due to the taxable gain on the sale of Medicis Pediatrics. Excluding this discrete tax benefit and this discrete tax expense (and the associated accounting gain of $2.2 million), the effective tax rate for the 2009 six months was 40.5%.

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Liquidity and Capital Resources

Overview

The following table highlights selected cash flow components for the 2010 six months and 2009 six months, and selected balance sheet components as of June 30, 2010 and December 31, 2009 (dollar amounts in millions):

	2010 Six Months	2009 Six Months	$ Change	% Change
Cash provided by (used in):				
Operating activities	$ 59.1	$51.0	$ 8.1	15.9%
Investing activities	(166.4)	(5.8)	(160.6)	2,769.0%
Financing activities	(3.5)	2.3	(5.8)	(252.2)%

	June 30, 2010	Dec. 31, 2009	$ Change	% Change
Cash, cash equivalents, and short-term investments	$ 543.5	$ 528.3	$15.2	2.9%
Working capital	488.5	434.6	53.9	12.4%
Long-term investments	61.0	25.5	35.5	139.2%
2.5% contingent convertible senior notes due 2032	169.1	169.1		%
1.5% contingent convertible senior notes due 2033	0.2	0.2		%

Working Capital

Working capital as of June 30, 2010 and December 31, 2009, consisted of the following (dollar amounts in millions):

	June 30, 2010	Dec. 31, 2009	$ Change	% Change
Cash, cash equivalents, and short-term investments	$543.5	$ 528.3	$ 15.2	2.9%
Accounts receivable, net	136.9	95.2	41.7	43.8%
Inventories, net	37.2	26.0	11.2	43.1%
Deferred tax assets, net	67.3	66.3	1.0	1.5%
Other current assets	20.4	16.5	3.9	23.6%
Total current assets	805.3	732.3	73.0	10.0%
Accounts payable	58.6	44.2	14.4	32.6%
Reserve for sales returns	49.2	48.1	1.1	2.3%
Accrued consumer rebate and loyalty programs	90.4	73.3	17.1	23.3%
Managed care and Medicaid reserves	44.4	47.1	(2.7)	(5.7)%
Income taxes payable	2.7	16.7	(14.0)	(83.8)%
Other current liabilities	71.5	68.3	3.2	4.7%
Total current liabilities	316.8	297.7	19.1	6.4%

Working capital	$488.5	$ 434.6	$ 53.9	12.4%

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We had cash, cash equivalents and short-term investments of $543.5 million and working capital of $488.5 million at June 30, 2010, as compared to $528.3 million and $434.6 million, respectively, at December 31, 2009. The increases were primarily due to the generation of $59.1 million of operating cash flow during the 2010 six months.

Management believes existing cash and short-term investments, together with funds generated from operations, should be sufficient to meet operating requirements for the foreseeable future. Our cash and short-term investments are available for dividends, milestone payments related to our product development collaborations, strategic investments, acquisitions of companies or products complementary to our business, the repayment of outstanding indebtedness, repurchases of our outstanding securities and other potential large-scale needs. In addition, we may consider incurring additional indebtedness and issuing additional debt or equity securities in the future to fund potential acquisitions or investments, to refinance existing debt or for general corporate purposes. If a material acquisition or investment is completed, our operating results and financial condition could change materially in future periods. However, no assurance can be given that additional funds will be available on satisfactory terms, or at all, to fund such activities.

On July 1, 2008, we acquired LipoSonix, an independent, privately-held company with a staff of approximately 40 scientists, engineers and clinicians located near Seattle, Washington. LipoSonix, now known as Medicis Technologies Corporation, is a medical device company developing non-invasive body sculpting technology. Its first product, the LIPOSONIX™ system, is currently marketed and sold through distributors in Europe and Canada. On June 15, 2009, Medicis Aesthetics Canada, Ltd. announced that Health Canada had issued a Medical Device License authorizing the sale of the LIPOSONIX™ system in Canada. In the U.S., the LIPOSONIX™ system is an investigational device and is not currently cleared or approved for sale. Under terms of the transaction, we paid $150 million in cash for all of the outstanding shares of LipoSonix. In addition, we will pay LipoSonix stockholders certain milestone payments up to an additional $150 million upon FDA approval of the LIPOSONIX™ system and if various commercial milestones are achieved on a worldwide basis.

As of June 30, 2010, our short-term investments included $24.2 million of auction rate floating securities. Our auction rate floating securities are debt instruments with a long-term maturity and with an interest rate that is reset in short intervals through auctions. During the three months ended March 31, 2008, we were informed that there was insufficient demand at auction for the auction rate floating securities, and since that time we have been unable to liquidate our holdings in such securities. As a result, these affected auction rate floating securities are now considered illiquid, and we could be required to hold them until they are redeemed by the holder at maturity or until a future auction on these investments is successful. During the first six months of 2010, we liquidated $3.3 million of our auction rate floating securities at par.

Operating Activities

Net cash provided by operating activities during the 2010 six months was approximately $59.1 million, compared to cash provided by operating activities of approximately $51.0 million during the 2009 six months. The following is a summary of the primary components of cash provided by operating activities during the 2010 six months and 2009 six months (in millions):

	2010 Six Months	2009 Six Months
Income taxes paid	(47.7)	(3.6)
Payment made to IMPAX related to development agreement		(5.0)
Payment made to Perrigo related to development agreement		(3.0)
Other cash provided by operating activities	106.8	62.6
Cash provided by operating activities	$ 59.1	$51.0

Investing Activities

Net cash used in investing activities during the 2010 six months was approximately $166.4 million, compared to net cash used in investing activities during the 2009 six months of $5.8 million. The change was primarily due to the net purchases and sales of our short-term and long-term investments during the respective

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quarters. During the 2009 six months, we paid $75.0 million to Ipsen upon the FDA s approval of DYSPORT®, and we received $70.3 million upon the sale of Medicis Pediatrics to BioMarin, which closed in June 2009.

Financing Activities

Net cash used in financing activities during the 2010 six months was $3.5 million, compared to net cash provided by financing activities of $2.3 million during the 2009 six months. Proceeds from the exercise of stock options were $2.2 million during the 2010 six months compared to $6.8 million during the 2009 six months. Dividends paid during the 2010 six months were $6.0 million, and dividends paid during the 2009 six months were $4.7 million.

Contingent Convertible Senior Notes and Other Long-Term Commitments

We have two outstanding series of Contingent Convertible Senior Notes, consisting of $169.2 million principal amount of 2.5% Contingent Convertible Senior Notes due 2032 (the Old Notes) and $0.2 million principal amount of 1.5% Contingent Convertible Senior Notes due 2033 (the New Notes). The New Notes and the Old Notes are unsecured and do not contain any restrictions on the incurrence of additional indebtedness or the repurchase of our securities, and do not contain any financial covenants. The Old Notes do not contain any restrictions on the payment of dividends. The New Notes require an adjustment to the conversion price if the cumulative aggregate of all current and prior dividend increases above $0.025 per share would result in at least a one percent (1%) increase in the conversion price. This threshold has not been reached and no adjustment to the conversion price has been made. On June 4, 2012 and 2017, or upon the occurrence of a change in control, holders of the Old Notes may require us to offer to repurchase their Old Notes for cash. On June 4, 2013 and 2018, or upon the occurrence of a change in control, holders of the New Notes may require us to offer to repurchase their New Notes for cash.

Except for the New Notes and Old Notes, we had only $8.0 million of long-term liabilities at June 30, 2010, and we had $316.8 million of current liabilities at June 30, 2010. Our other commitments and planned expenditures consist principally of payments we will make in connection with strategic collaborations and research and development expenditures, and we will continue to invest in sales and marketing infrastructure.

In connection with occupancy of the new headquarter office during 2008, we ceased use of the prior headquarter office, which consists of approximately 75,000 square feet of office space, at an average annual expense of approximately $2.1 million, under an amended lease agreement that expires in December 2010. Under ASC 420, *Exit or Disposal Cost Obligations*, a liability for the costs associated with an exit or disposal activity is recognized when the liability is incurred. We recorded lease exit costs of approximately $4.8 million during the three months ended September 30, 2008 consisting of the initial liability of $4.7 million and accretion expense of $0.1 million. We have not recorded any other costs related to the lease for the prior headquarters.

As of June 30, 2010, approximately $1.1 million of lease exit costs remain accrued and are expected to be paid by December 2010, all of which is classified in other current liabilities. Although we no longer use the facilities, the lease exit cost accrual has not been offset by an adjustment for estimated sublease rentals. After considering sublease market information as well as factors specific to the lease, we concluded it was probable we would be unable to reasonably obtain sublease rentals for the prior headquarters and therefore we would not be subleased for the remaining lease term. We will continue to monitor the sublease market conditions and reassess the impact on the lease exit cost accrual.

The following is a summary of the activity in the liability for lease exit costs for the six months ended June 30, 2010:

	Liability as of December 31, 2009	Amounts Charged to Expense	Cash Payments Made	Cash Received from Sublease	Liability as of June 30, 2010
Lease exit costs liability	$ 2,063,677	$ 58,664	$(1,069,056)	$	$1,053,285

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Dividends

We do not have a dividend policy. Since July 2003, we have paid quarterly cash dividends aggregating approximately $52.6 million on our common stock. In addition, on June 9, 2010, we announced that our Board of Directors had declared a cash dividend of $0.06 per issued and outstanding share of common stock payable on July 30, 2010, to our stockholders of record at the close of business on July 1, 2010. Prior to these dividends, we had not paid a cash dividend on our common stock. Any future determinations to pay cash dividends will be at the discretion of our Board of Directors and will be dependent upon our financial condition, operating results, capital requirements and other factors that our Board of Directors deems relevant.

Fair Value Measurements

We utilize unobservable (Level 3) inputs in determining the fair value of our auction rate floating security investments, which totaled $24.2 million at June 30, 2010. These securities were included in long-term investments at June 30, 2010. We also utilize unobservable (Level 3) inputs to value our investment in Hyperion Therapeutics, Inc.

Our auction rate floating securities are classified as available-for-sale securities or trading securities and are reflected at fair value. In prior periods, due to the auction process which took place every 30-35 days for most securities, quoted market prices were readily available, which would qualify as Level 1 under ASC 820, *Fair Value Measurements and Disclosure*. However, due to events in credit markets that began during the first quarter of 2008, the auction events for most of these instruments failed, and, therefore, we determined the estimated fair values of these securities, beginning in the first quarter of 2008, utilizing a discounted cash flow analysis. These analyses consider, among other items, the collateralization underlying the security investments, the expected future cash flows, including the final maturity, associated with the securities, and the expectation of the next time the security is expected to have a successful auction. These securities were also compared, when possible, to other observable market data with similar characteristics to the securities held by us. Due to these events, we reclassified these instruments as Level 3 during the first quarter of 2008.

In November 2008, we entered into a settlement agreement with the broker through which we purchased auction rate floating securities. The settlement agreement provides us with the right to put an auction rate floating security currently held by us back to the broker beginning on June 30, 2010. At June 30, 2010 and December 31, 2009, we held one auction rate floating security with a par value of $1.3 million that was subject to the settlement agreement. We elected the irrevocable Fair Value Option treatment under ASC 825, *Financial Instruments*, and adjusted the put option to fair value. We reclassified this auction rate floating security from available-for-sale to trading securities as of December 31, 2008, and future changes in fair value related to this investment and the related put right will be recorded in earnings. This auction rate floating security was settled at par on July 1, 2010.

Off-Balance Sheet Arrangements

As of June 30, 2010, we are not involved in any off-balance sheet arrangements, as defined in Item 3(a)(4)(ii) of Securities and Exchange Commission (SEC) Regulation S-K.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in conformity with U.S. generally accepted accounting principles. The preparation of the condensed consolidated financial statements requires us to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. On an ongoing basis, we evaluate our estimates related to sales allowances, chargebacks, rebates, returns and other pricing adjustments, depreciation and amortization and other contingencies and litigation. We base our estimates on historical experience and various other factors related to each circumstance. Actual results could differ from those estimates based upon future events, which could include, among other risks, changes in the regulations governing the manner in which we sell our products, changes in the health care environment and managed care consumption patterns. Our significant accounting policies are described in Note 2 to the consolidated financial statements included in our Form 10-K for the year ended December 31, 2009. There were no new significant accounting estimates in the second quarter of 2010, nor were there any material changes to the critical accounting policies and estimates discussed in our Form 10-K for the year ended December 31, 2009.

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Recent Accounting Pronouncements

In October 2009, the FASB approved for issuance Accounting Standards Update (ASU) No. 2009-13, *Revenue Recognition* (ASC 605) *Multiple Deliverable Revenue Arrangements*, a consensus of EITF 08-01, *Revenue Arrangements with Multiple Deliverables.* This guidance modifies the fair value requirements of ASC subtopic 605-25 *Revenue Recognition Multiple Element Arrangements* by providing principles for allocation of consideration among its multiple-elements, allowing more flexibility in identifying and accounting for separate deliverables under an arrangement. An estimated selling price method is introduced for valuing the elements of a bundled arrangement if vendor-specific objective evidence or third-party evidence of selling price is not available, and significantly expands related disclosure requirements. This updated guidance is effective on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Alternatively, adoption may be on a retrospective basis, and early application is permitted. We are currently assessing what impact, if any, the updated guidance will have on our results of operations and financial condition.

In March 2010, the FASB approved for issuance ASU No. 2010-17, *Revenue Recognition-Milestone Method* (Topic 605): *Milestone Method of Revenue Recognition*. The updated guidance recognizes the milestone method as an acceptable revenue recognition method for substantive milestones in research or development transactions, and is effective on a prospective basis for milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010. Early adoption is permitted. We are currently assessing what impact, if any, the updated guidance will have on our results of operations and financial condition.

Forward Looking Statements

This Quarterly Report on Form 10-Q and other documents we file with the SEC include forward-looking statements. These include statements relating to future actions, prospective products or product approvals, future performance or results of current and anticipated products, sales and marketing efforts, expenses, the outcome of contingencies, such as legal proceedings, and financial results. From time to time, we also may make forward-looking statements in press releases or written statements, or in our communications and discussions with investors and analysts in the normal course of business through meetings, webcasts, phone calls and conference calls. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). These statements are based on certain assumptions made by us based on our experience and perception of historical trends, current conditions, expected future developments and other factors we believe are appropriate in the circumstances. We caution you that actual outcomes and results may differ materially from what is expressed, implied or forecast by our forward-looking statements. Such statements are subject to a number of assumptions, risks and uncertainties, many of which are beyond our control. You can identify these statements by the fact that they do not relate strictly to historical or current facts. They use words such as anticipate, estimate, expect, project, intend, plan, believe, will, should, outlook, could, target, and other words and terms of simil connection with any discussion of future operations or financial performance. Among the factors that could cause actual results to differ materially from our forward-looking statements are the following:

- competitive developments affecting our products, such as the FDA approvals of Prevelle® Silk, Radiesse®, Sculptra®, Artefill®, Hydrelle, Juvéderm® Ultra and Juvéderm® Ultra Plus, competitors to RESTYLANE® and PERLANE®, VELTIN™, a competitor to ZIANA®, a generic form of our DYNACIN® Tablets product, generic forms of our LOPROX® TS, LOPROX® Cream, LOPROX® Gel and LOPROX® Shampoo products, and potential generic forms of our TRIAZ®, PLEXION®, SOLODYN® or VANOS® products;
- increases or decreases in the expected costs to be incurred in connection with the research and development, clinical trials, regulatory approvals, commercialization and marketing of our products;
- the success of research and development activities, including the development of additional forms of SOLODYN®, and our ability to obtain regulatory approvals;
- the speed with which regulatory authorizations and product launches may be achieved;
- changes in the FDA s position on the safety or effectiveness of our products;
- changes in our product mix;
- the anticipated size of the markets and demand for our products;

changes in prescription levels;

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the impact of acquisitions, divestitures and other significant corporate transactions, including our acquisition of LipoSonix;
risks associated with realizing all of the anticipated benefits of our acquisition of LipoSonix;
the effect of economic changes generally and in hurricane-effected areas;
manufacturing or supply interruptions;
importation of other dermal filler or botulinum toxin products, including the unauthorized distribution of products approved in countries neighboring the U.S.;
changes in the prescribing or procedural practices of dermatologists, podiatrists and/or plastic surgeons, including prescription levels;
the ability to successfully market both new products, including DYSPORT®, and existing products;
difficulties or delays in manufacturing and packaging of our products, including delays and quality control lapses of third party manufacturers and suppliers of our products;
the availability of product supply or changes in the cost of raw materials;
the ability to compete against generic and other branded products;
trends toward managed care and health care cost containment;
inadequate protection of our intellectual property or challenges to the validity or enforceability of our proprietary rights and our ability to secure patent protection from filed patent applications for our primary products, including SOLODYN®;
possible introduction of generic versions of our products, including SOLODYN®;
possible federal and/or state legislation or regulatory action affecting, among other things, the Company s ability to enter into agreements with companies introducing generic versions of the Company s products as well as pharmaceutical pricing and reimbursement, including Medicaid and Medicare and involuntary approval of prescription medicines for over-the-counter use;
legal defense costs, insurance expenses, settlement costs and the risk of an adverse decision or settlement related to product liability, patent protection, government investigations, and other legal proceedings (see Part II, Item 1, Legal Proceedings);
changes in U.S. generally accepted accounting principles;
additional costs related to compliance with changing regulation of corporate governance and public financial disclosure;
any changes in business, political and economic conditions due to the threat of future terrorist activity in the U.S. and other parts of the world;
access to available and feasible financing on a timely basis;
the availability of product acquisition or in-licensing opportunities;
the risks and uncertainties normally incident to the pharmaceutical and medical device industries, including product liability claims;
the risks and uncertainties associated with obtaining necessary FDA approvals, including for the LIPOSONIX™ system;
the inability to obtain required regulatory approvals for any of our pipeline products;
unexpected costs and expenses, or our ability to limit costs and expenses as our business continues to grow;
downturns in general economic conditions that negatively affect our dermal restorative and branded prescription products, and our ability to accurately forecast our financial performance as a result;
failure to comply with our corporate integrity agreement, which could result in substantial civil or criminal penalties and our being excluded from government health care programs, which could materially reduce our sales and adversely affect our financial condition and results of operations; and
the inability to successfully integrate newly-acquired entities, such as LipoSonix.

We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to review any future disclosures contained in the reports that we file with the SEC. Our Annual Report on Form 10-K for the year ended December 31, 2009, and this Quarterly Report contain discussions of various risks relating to our business that could cause actual results to differ

materially from expected and historical results, which you should review. You should understand that it is not possible to predict or identify all such risks. Consequently, you should not consider any such list or discussion to be a complete set of all potential risks or uncertainties.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

As of June 30, 2010, there were no material changes to the information previously reported under Item 7A in our Annual Report on Form 10-K for the year ended December 31, 2009.

Item 4. Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) that are designed to ensure that information required to be disclosed in reports filed by us under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. Our Chief Executive Officer and Chief Financial Officer, with the participation of other members of management, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2010, and have concluded that, as of such date, our disclosure controls and procedures were effective to ensure that the information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms.

Although the management of the Company, including the Chief Executive Officer and the Chief Financial Officer, believes that our disclosure controls and internal controls currently provide reasonable assurance that our desired control objectives have been met, management does not expect that our disclosure controls or internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

During the three months ended June 30, 2010, there was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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Part II. Other Information

Item 1. Legal Proceedings

The information set forth under Note 16 in our accompanying condensed consolidated financial statements, included in Part I, Item I of this Report, is incorporated herein by reference.

Item 1A. Risk Factors

We operate in a rapidly changing environment that involves a number of risks that could materially and adversely affect our business, financial condition, prospects, operating results or cash flows. For a detailed discussion of the risk factors that should be understood by any investor contemplating investment in our stock, please refer to Part I, Item 1A Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2009.

There are no material changes from the risk factors previously disclosed in Part I, Item 1A Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2009.

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Item 6. Exhibits

Exhibit 3.1	Amended and Restated By-Laws of the Company(1)
Exhibit 10.1+*	License and Settlement Agreement, dated May 4, 2010, among the Company, Ranbaxy Inc. and Ranbaxy Laboratories Limited.
Exhibit 10.2+	Settlement Agreement and Release, dated June 15, 2010, between the Company and Joseph P. Cooper.
Exhibit 10.3+	First Amendment to Amended and Restated Employment Agreement, dated June 15, 2010, between the Company and Jason D. Hanson.
Exhibit 10.4+	First Amendment to Employment Agreement, dated June 15, 2010, between the Company and Richard D. Peterson.
Exhibit 10.5+	First Amendment to Amended and Restated Employment Agreement, dated June 15, 2010, between the Company and Mark A. Prygocki.
Exhibit 31.1+	Certification by the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 31.2+	Certification by the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 32.1+	Certification by the Chief Executive Officer and the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 101+**	The following financial information from Medicis Pharmaceutical Corporation s Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, formatted in XBRL (Extensible Business Reporting Language) includes: (i) the Condensed Consolidated Balance Sheets as of June 30, 2010 and December 31, 2009, (ii) the Condensed Consolidated Statements of Income for each of the three-month and six-month periods ended June 30, 2010 and 2009, (iii) the Condensed Consolidated Statements of Cash Flows for each of the six-month periods ended June 30, 2010 and 2009, and (iv) the Notes to the Condensed Consolidated Financial Statements.

\+ Filed herewith

(1) Filed as Exhibit 3.1 to Form 8-K on June 18, 2010 and incorporated herein by reference.

* Portions of this exhibit

(indicated by asterisks) have been omitted pursuant to a request for confidential treatment pursuant to Rule 24b-2 under the Securities Exchange Act of 1934.

** Pursuant to applicable securities laws and regulations, we are deemed to have complied with the reporting obligation relating to the submission of interactive data files in such exhibits and are not subject to liability under any anti-fraud provisions of the federal securities laws as long as we have made a good faith attempt to comply with the submission requirements and promptly amend the interactive data files after becoming aware that the interactive data files fail to comply with the submission

requirements. Users of this data are advised that, pursuant to Rule 406T, these interactive data files are deemed not filed and otherwise are not subject to liability.

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SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MEDICIS PHARMACEUTICAL CORPORATION

Date: August 9, 2010

By: /s/ Jonah Shacknai
Jonah Shacknai
Chairman of the Board and
Chief Executive Officer
(Principal Executive Officer)

Date: August 9, 2010

By: /s/ Richard D. Peterson
Richard D. Peterson
Executive Vice President
Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)