

Medicis pays \$455M for bankrupt drug company

BY JENNIFER A. JOHNSON
Phoenix Business Journal

In an effort to diversify its drug portfolio, Medicis Pharmaceutical Corp. snagged drugmaker Graceway Pharmaceuticals LLC in a bankruptcy auction with a \$455 million bid.

The Scottsdale-based maker of acne and wrinkle treatments will add Graceway's asthma medications, skin treatments and women's health products to its drug lineup.

The purchase was approved by the U.S. Bankruptcy Court in Wilmington, Del., on Nov. 22 and is expected to close in early December, according to a Medicis filing with the U.S. Securities and Exchange Commission.

Medicis won the bid over Switzerland-based Galderma SA, which started its bid at \$275 million.

A spokeswoman for Medicis said the company is financing the purchase with cash on hand.



Shacknai

"We are pleased to announce this strategic acquisition of the Graceway product portfolio, and the ability to broaden our presence within dermatology," said Jonah Shacknai, chairman and CEO of Medicis in a statement.

Shacknai said Medicis also will acquire several mid- and late-stage products with a combined annual net sales peak potential of more than \$500 million under the terms of the agreement.

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Broker tackles book publishing

Football tale spins coaching twist

BY JAN BUCHHOLZ | Phoenix Business Journal

During the past few years, Dean Wegner has established himself as a local expert on housing and lending issues. The Scottsdale businessman is a regular contributor to newspapers and television programs both locally and nationally, and now he's adding another vocation to his resume: book publisher.

The topic of his most recent offering might have more than a passing interest to readers. It's about Mike Leach, the former head football coach at Texas Tech University, who was named earlier this week as the new head coach at Washington State.

Wegner, a mortgage broker and loan consultant with WJ Bradley Mortgage Capital Corp. in Scottsdale, had hoped Arizona State University would have snagged Leach.

Through Wegner's company, Scottsdale Book Publishing LLC, he last month released "Double T - Double Cross, The Firing of Coach Mike Leach: The Backroom Deal that Deflated the Red Raider Nation."

Wegner commissioned Michael Lee Laning, a veteran author of many military history books, to research and write "Double T - Double Cross." The book delves into the

Valley housing expert Dean Wegner is expanding his horizons with his growing side business, Scottsdale Book Publishing LLC, which recently released "Double T - Double Cross, The Firing of Coach Mike Leach: The Backroom Deal that Deflated the Red Raider Nation." Leach was one of the names being floated as a replacement for Arizona State University football coach Dennis Erickson.

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JIM POULIN | PHOENIX BUSINESS JOURNAL

Joint Corp. sells 100 franchises since early 2010

BY ANGELA GONZALES
Phoenix Business Journal

After John Leonesio grew Massage Envy to 300 franchises in 49 states and sold it in 2008, he was approached about a year later by a venture capital group to do the same thing with chiropractic care.

Texas-based Business Venture Capital Group had purchased a chiropractic business in an all-cash deal and asked Leonesio if he would help build a franchise model for chiropractic services around the enterprise. At the time, the group had about a dozen locations.

"We took about a year to rework the model and see if the membership model would work as well as we hoped it would," Leonesio said.

The Joint Corp. started selling franchises at the beginning of 2010 and now has 100 franchises in 15 states, with 26 locations already open. Twenty-five franchises have been sold in Arizona and six of those locations are open in the Valley with more coming soon. It is branded as The Joint ... the chiropractic place.

Another 74 locations are expected to open by the middle of next year.

"Every day we're adding more and more," Leonesio said.

Within 10 years he expects to sell



Leonesio

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Retailers say Small Business Saturday was a success



PROVIDED BY TOM BRYANT | FRANCES AND SMEEKS
Shoppers browsed at Phoenix's Frances and Smeeks on Small Business Saturday.

BY LYNN DUCEY
Phoenix Business Journal

With big-box retailers and major shopping centers getting their share of the holiday shopping, Small Business Saturday aimed to level the playing field a bit for the variety of independently owned small-businesses across the country and here in metro Phoenix.

This year marked the second annual Small Business Saturday, sponsored by American Express Open, to encourage consumers to shop locally during the holiday season. So far, results are good.

The National Retail Federation reported that the average shopper spent a record \$398.62 over the four-day Thanksgiving weekend, a significant increase from the \$365.34 the average shopper spent a year ago.

Over the holiday weekend, American consumers spent \$52.4 billion, the most spent during the traditional start of the holiday shopping season in four years, the NRF said.

ComScore Inc., a Virginia-based market research firm, said Cyber Monday

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THE JOINT ... THE CHIROPRACTIC PLACE

Valley franchise locations:

- 1650 E. Camelback Road #170, Phoenix
- 6107 N. Scottsdale Road, Ste. C-102, Scottsdale
- 15035 N. Thompson Peak Pkwy., Ste E103, Scottsdale
- 815 E. Baseline Road #106, Tempe
- 4910 E. Ray Road, #G9, Phoenix
- 7119 E. Shea Blvd., #112, Scottsdale

Source: www.thejoint.com

JOINT: Company aims to open 74 locations by mid-2012

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1,000 franchises and serve 500,000 members. Franchise startup fees cost \$29,000.

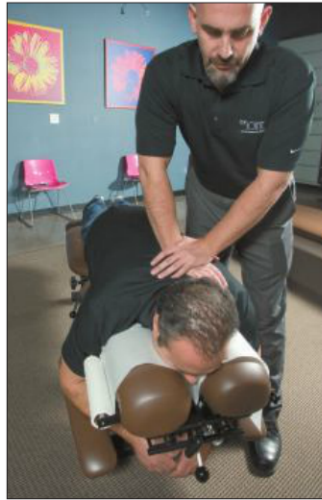
"They are expanding like crazy and growing," said Dr. Judson Lee, a chiropractor at Health Coach in Phoenix. "The idea is to make adjustments more affordable because, with the insurance crisis in the country, it's becoming more and more of a problem for people to get the care they need."

Scottsdale-based The Joint uses the same membership model that Leonosio created for Massage Envy. That \$300 million company had more than 800 franchisees and 300 locations when he sold it in 2008. It continues to operate under different owners.

Leonosio's goal is to make chiropractic care more accessible to everyone. Members pay a \$49 monthly fee that covers up to four treatments per month. They can visit any The Joint...the chiropractic place in the country to receive care, but visits are not covered by insurance. The Joint primarily will provide adjustments to clients. The facilities will not provide massage or physical therapy services.

Leonosio sold many of the franchises to existing and former Massage Envy franchise owners.

"They understand the model," Leonosio



Dr. Kevin Lees adjusts a client of The Joint franchise at 16th Street and Camelback Road.

said. "We're not doing anything that much different than we did before."

Business Venture Capital invested \$500,000 to get the business started and the rest of the financing is coming from

franchise sales, Leonosio said.

"The company is already profitable and cash flowing," he said. "We really didn't need any capital."

Annual revenue for the Joint Corp. in 2011 is about \$2.8 million and is expected to reach \$7.4 million next year. This includes franchise sales fees, royalties, software and other fees.

Leonosio declined to disclose the sale price of Massage Envy.

Dan Olsen, president of Mesa-based Franchise Growth Systems Inc., who helped Leonosio expand the Massage Envy franchise, said he expects to see the same success with The Joint.

"John has a really good mind for business," Olsen said. "Plus, he's very good with the people he brings on board. He builds a support system around these people so they're successful."

Olsen said Leonosio hasn't needed his help this time around.

"He already has contracts and knows how it works," he said. "I think he has a really good handle on the next thing with The Joint."

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Olsen

WEGNER: Book examines coach's firing from Texas Tech

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minutes of Leach's very public termination as the head football coach at Texas Tech in December 2009, right before the team was scheduled to play in the Alamo Bowl.

"I was aware of the termination of Mike Leach and the story just captivated me," Wegner said. "No one had written a book about the subject and there was definitely a story to tell."

The firing raised the ire of many fans and alumni, who felt the winning coach had been railroaded.

Ironically, in the months it took for Wegner to find an author and produce the book, Leach published his own version of events in "Swing Your Sword: Leading the Charge in Football and Life."

"At the time, we had no idea (Leach) was writing his book, but we were actually able to use his book to help write our book," Wegner said.

Most of Leach's book is about his life in football, while most of "Double T - Double Cross" is about the specific factors surrounding Leach's firing, Wegner said.

Though admittedly sympathetic to Leach's account of what happened, Wegner said Lanning took pains to obtain Texas Tech officials' side of the story.

"We gave them several opportunities to respond and they repeatedly said, 'No,'" he said.

The book has generated buzz, especially in Texas. Wegner said the book has sold between 2,000 and 3,000 copies, and did extraordinarily well at a book signing at Barnes & Noble in Lubbock, home of Texas Tech. The soft cover retails for \$19.95 and an ebook goes for \$9.95. Both are available on Amazon.com, and at

'There's always going to be some books you want to have in print. There are classics, for instance, and there are books that you want to write notes in the margin.'



Jessica Tribble
Poisoned Pen Press

some local bookstores.

Despite the quick results, Wegner is not expecting book publishing to overshadow his day job, but it brings variety and more meaning to his life.

"I think I have a creative personality and this is a nice outlet to put together and deliver to the public," he said.

In November 2010, Wegner self-published "Life After Foreclosure," a guide for surviving the emotional and financial ramifications of losing a home. "Life After Foreclosure" followed his first manual, "How to Pass the Arizona Real Estate Exam." The success of those volumes encouraged him to pursue other titles.

Wegner credits Stanley Bronstein, a Scottsdale-based certified public accountant, lawyer and personal coach, for mentoring him through the publishing process.

Bronstein has published seven books, most of a motivational nature, through his company AIQ Press LLC.

"About a year ago, Dean said he was

coming out with this book, so I spent some time telling him 'this is everything I learned, this is everything I did wrong, this is everything I did right,'" Bronstein said.

With the availability of the Internet, Bronstein said the barriers to entering the publishing business are fewer than ever, "but it's hard to make money at it."

Jessica Tribble, publisher for Poisoned Pen Press in Scottsdale, agrees that the barriers have dropped substantially because of print-on-demand and digital capabilities.

"The publishing business is growing but in a different way," Tribble said.

Instead of traditional publishers who invest a lot of money to introduce hardcover titles, there is an uptick in self-publishing among people who often are new authors.

"It's a way now to enhance their careers," Tribble said.

Though ebooks are securing a much larger slice of the publishing pie, Tribble said there's no reason to expect print copies to go away for good.

"There's always going to be some books you want to have in print. There are classics, for instance, and there are books that you want to write notes in the margin."

In fact, Wegner said he is selling about 50 percent ebooks and 50 percent print books.

With the success of "Double T - Double Cross," he already is scouring for the next compelling topic.

"I'm currently looking for creative stories with a twist. I like journalistic stories with passion," Wegner said.

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MEDICIS: Graceway made asthma medicine

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Analysts who cover Medicis said the acquisition could be a risky bet to diversify its drug portfolio. Acne drug treatment Solodyne currently makes up more than 60 percent of its revenue. While the acquisition will add more drugs to the Medicis lineup, much of the pressure will rest on the profitability of one drug, Zyclara.

Bristol, Tenn.-based Graceway filed for Chapter 11 bankruptcy reorganization Sept. 29 after Aldara, its blockbuster drug used to treat genital warts, lost patent protection.

Graceway was the maker of precancerous skin growth and genital wart treatment creams Aldara and Zyclara; Maxair Autohaler, a rescue inhaler used to treat asthma; Atopicalair, a nonsteroidal cream used to treat eczema; and Estrasorb, a soy-based lotion for hot flashes.

In 2009, Graceway had total net sales of about \$355 million. Aldara accounted for 85 percent of those sales. By 2011, that figure had fallen to about 16 percent for the first two quarters of the year, according to a court declaration by Gregory Jones, executive vice president of strategic development for Graceway.

Jones cited "the loss of exclusivity with respect to Aldara, and the resulting decrease in net sales," as the primary reasons for the bankruptcy filing.

Corey Davis, a senior pharmaceutical analyst at New York-based Jefferies & Co., said the difference between a good purchase and a great purchase is going to be how profitable Zyclara will be for the drugmaker.



Davis

Zyclara is a brand name, low-dose reformulation of Aldara used to treat precancerous skin growths and genital warts. Medicis will acquire the drug formulation with the Graceway purchase.

Analysts at Sanford C. Bernstein & Co. said in a research note to investors that Zyclara is the most important asset acquired in the purchase. The drug is protected by patents through March 2013 for one dose and July 2014 for another.

Bernstein analysts said the Zyclara intellectual property position remains the riskier part of the deal because the drug eventually will lose its patents.

UBS Investment Research analysts said, "We believe management did this deal to fill the Solodyn hole and enable the company to deliver its goal of at least low-teens earnings per share growth next year."

Graceway listed debt of as much as \$1 billion and assets of as much as \$500 million, according to bankruptcy documents. Medicis will not acquire any of that debt in the acquisition.

Medicis reported profit of \$19.5 million for the three months ended Sept. 30, compared with profit of \$27.6 million for the same period last year.

The company reported a small boost in third-quarter sales, from \$177 million in 2010 to \$185 million for 2011.

Medicis is the maker of 11 prescription drugs, including facial fillers Perlane and Restylane, and the acne treatment Solodyn. The company also makes Botox-competitor Dysport.