

BONE CARE INTERNATIONAL INC

Form PRE 14A

September 28, 2004

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**SCHEDULE 14A
(RULE 14a-101)**

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE

**SECURITIES EXCHANGE ACT OF 1934
(AMENDMENT NO.)**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Under Rule 14a-12

BONE CARE INTERNATIONAL, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

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

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

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

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

(4) Proposed maximum aggregate value of transaction:

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

(1) Amount previously paid:

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

(3) Filing Party:

(4) Date Filed:

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Preliminary Copy Dated September 27, 2004

Bone Care International, Inc.

**1600 Aspen Commons
Middleton, Wisconsin 53562
(608) 662-7800**

October , 2004

Dear Shareholder:

You are invited to attend the 2004 Annual Meeting of Shareholders of Bone Care International, Inc. to be held on Tuesday, November 23, 2004 at 9:00 a.m., local time, at

At this year's meeting you will be asked to: (i) elect three directors; (ii) approve an amendment to our 2003 Stock Incentive Plan; (iii) approve an increase in our authorized shares of common and preferred stock; (iv) approve an agreement and plan of merger in which our state of incorporation would be changed from Wisconsin to Delaware; and (v) ratify the selection of our independent auditors. The accompanying Notice of Meeting and Proxy Statement describe these matters. We urge you to read this information carefully.

Your board of directors unanimously believes that election of its nominees for directors, approval of the amendment to our 2003 Stock Incentive Plan, approval of an increase in our authorized shares of common and preferred stock, approval of the agreement and plan of merger effecting our reincorporation in Delaware and ratification of the selection of our independent auditors are in the best interests of Bone Care International and its shareholders, and, accordingly, recommends a vote **FOR** each of those matters.

In addition to the formal business to be transacted, management will make a presentation on developments of the past year and respond to comments and questions of general interest to shareholders.

It is important that your shares be represented and voted whether or not you plan to attend the annual meeting in person. You may vote by completing and mailing the enclosed proxy card. Voting by written proxy will ensure your shares are represented at the annual meeting. Please review the instructions on the proxy card or the information forwarded by your bank, broker or other holder or record regarding each of these voting options.

Sincerely,

Paul L. Berns
President and Chief Executive Officer

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Bone Care International, Inc.

1600 Aspen Commons
Middleton, Wisconsin 53562
(608) 662-7800

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD NOVEMBER 23, 2004

The 2004 annual meeting of shareholders of Bone Care International, Inc. will be held at _____, on Tuesday, November 23, 2004, at 9:00 a.m., local time, for the following purposes:

- (1) To elect three directors to serve until the 2007 annual meeting of shareholders;
- (2) To approve an amendment to our 2003 Stock Incentive Plan;
- (3) To approve an amendment to our articles of incorporation to increase the number of our authorized shares of common stock from 28 million to 75 million and to increase the number of our authorized shares of preferred stock from 2 million to 10 million;
- (4) To approve an agreement and plan of merger of Bone Care International, Inc., a Wisconsin corporation, into Bone Care International, Inc., a Delaware corporation, to effect our reincorporation in Delaware and to increase the number of our authorized shares of common and preferred stock as provided in proposal (3);
- (5) To ratify the selection of Deloitte & Touche LLP as our independent auditors for the fiscal year ending June 30, 2005; and
- (6) To transact any other business as may properly come before the meeting or any adjournments thereof.

Only shareholders of record at the close of business on October 12, 2004, the record date for the meeting, will be entitled to notice of and to vote at the meeting or any adjournments thereof.

By Order of the Board of Directors,

Paul L. Berns
President and Chief Executive Officer

Middleton, Wisconsin
October , 2004

IMPORTANT

WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING IN PERSON, PLEASE SIGN AND DATE THE ENCLOSED PROXY AND RETURN IT PROMPTLY IN THE ENCLOSED POSTAGE PAID ENVELOPE. EVEN IF YOU HAVE VOTED BY PROXY, YOU MAY STILL VOTE IN PERSON IF YOU ATTEND THE MEETING. ANY PROXY MAY BE REVOKED AT ANY TIME BEFORE IT IS EXERCISED BY FOLLOWING THE INSTRUCTIONS SET FORTH ON PAGE 2 OF THE ACCOMPANYING PROXY STATEMENT. PLEASE NOTE, HOWEVER, THAT IF YOUR SHARES ARE HELD OF RECORD BY A BROKER, BANK OR OTHER NOMINEE AND YOU WISH TO VOTE AT THE MEETING, YOU MUST OBTAIN A PROXY ISSUED IN YOUR NAME FROM THAT RECORD HOLDER.

THE COMPANY S 2004 ANNUAL REPORT TO SHAREHOLDERS ACCOMPANIES THE PROXY STATEMENT AND FORM OF PROXY.

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Bone Care International, Inc.

**1600 Aspen Commons
Middleton, Wisconsin 53562
(608) 662-7800**

PROXY STATEMENT

Proxy Solicitation

This proxy statement is furnished in connection with the solicitation of the accompanying proxy by the board of directors of Bone Care International, Inc. (sometimes referred to as the Company, Bone Care, we, our or us) for use at the 2004 annual meeting of shareholders to be held at _____, on Tuesday, November 23, 2004, at 9:00 a.m., local time, and at any adjournments thereof.

At the meeting, shareholders will consider proposals to: (1) elect three directors to serve until the 2007 annual meeting of shareholders, (2) approve an amendment to our 2003 Stock Incentive Plan, (3) approve an amendment to our articles of incorporation to increase the number of our authorized shares of common stock from 28 million to 75 million and to increase the number of our authorized shares of preferred stock from 2 million to 10 million, (4) approve an agreement and plan of merger to effect a change of our state of incorporation from Wisconsin to Delaware and to increase the number of our authorized shares of common and preferred stock as provided in proposal (3), and (5) ratify the selection of Deloitte & Touche LLP as our independent auditors for the fiscal year ending June 30, 2005. The board of directors does not know of any other matters to be brought before the meeting; however, if other matters should properly come before the meeting, it is intended that the persons named in the accompanying proxy will vote on such matters at their discretion.

Shareholders who execute proxies retain the right to revoke them at any time prior to the voting thereof by attending the meeting and voting in person or by advising our secretary of such revocation in writing (by later-dated proxy which is voted at the meeting or otherwise).

The notice of the annual meeting, this proxy statement, the accompanying form of proxy, and our 2004 annual report, including financial statements for the fiscal year ended June 30, 2004, were first mailed to shareholders on or about October _____, 2004.

Shareholders Entitled to Vote

Only holders of record of the shares of our common stock at the close of business on October 12, 2004, the record date for the annual meeting, are entitled to notice of and to vote at the annual meeting and at any adjournments thereof. Shareholders will be entitled to one vote for each full share held. On September 30, 2004, there were 19,415,338 of common stock outstanding and entitled to vote at the annual meeting. Appearance at the annual meeting in person or by proxy of the holders of common stock entitled to cast at least 9,707,670 votes is required for a quorum. Shares represented by abstentions or broker non-votes will be counted as shares that are present and entitled to vote for purposes of determining the presence of a quorum. A broker non-vote occurs when a registered broker holding a customer's shares in the name of the broker has not received voting instructions on the matter from the customer and is barred by applicable rules from exercising discretionary voting authority in the matter.

Voting Information

With respect to Proposal No. 1, the election of three directors, directors will be elected by a plurality of the votes cast. This means that the director nominees with the most affirmative votes are elected. Abstentions and withholding authority to vote for a nominee will not affect whether a nominee receives a plurality of votes. Brokers who have not received voting instructions from beneficial owners by ten days prior to the annual meeting are permitted to vote the shares of such holders in their discretion, subject to any instructions subsequently given by such holders prior to the annual meeting.

With respect to Proposal No. 2, the approval of an amendment to our 2003 Stock Incentive Plan, action of shareholders will be taken by a majority of the votes cast, excluding abstentions. Abstentions will be treated

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as not voted and will not be counted as votes for or against the proposal. Brokers who have not received voting instructions from beneficial owners by ten days prior to the annual meeting are permitted to vote the shares of such holders in their discretion, subject to any instructions subsequently given by such holders prior to the annual meeting.

With respect to Proposal No. 3, the amendment to our articles of incorporation to increase the number of authorized shares of common and preferred stock, action of shareholders will be taken by a majority of the votes cast, excluding abstentions. Abstentions will be treated as not voted and will not be counted as votes for or against the proposal. Brokers who have not received voting instructions from beneficial owners by ten days prior to the annual meeting are permitted to vote the shares of such holders in their discretion, subject to any instructions subsequently given by such holders prior to the annual meeting.

With respect to Proposal No. 4, the approval of the agreement and plan of merger will require the affirmative vote of 60% of all of the shares of common stock outstanding on the record date. Accordingly, abstentions and broker non-votes will have the same effect as votes against the proposal. Brokers who have not received voting instructions from beneficial owners by ten days prior to the annual meeting are permitted to vote the shares of such holders in their discretion, subject to any instructions subsequently given by such holders prior to the annual meeting.

With respect to Proposal No. 5, ratification of Deloitte & Touche LLP as our independent auditors for the fiscal year ending June 30, 2005, action of the shareholders will be taken by a majority of the votes cast, excluding abstentions. Abstentions will be treated as not voted and will not be counted as votes for or against the proposal. Brokers who have not received voting instructions from beneficial owners by ten days prior to the annual meeting are permitted to vote the shares of such holders in their discretion, subject to any instructions subsequently given by such holders prior to the annual meeting.

Proxies in the accompanying form, properly executed and received by us at or prior to the meeting and not revoked, will be voted as directed therein on all matters presented at the meeting. In the absence of a specific direction from the shareholder as to a proposal, the shareholder's proxy will be voted FOR the election of the director nominees named in this proxy statement, FOR the amendment of our 2003 Stock Incentive Plan, FOR the amendment of our articles of incorporation to increase the number of our authorized shares of common and preferred stock, FOR the agreement and plan of merger to effect our reincorporation and to effect such increases in our authorized shares and FOR ratification of the selection of our independent auditors.

If any additional matters should properly come before the annual meeting, then, except as otherwise provided by law or by our articles of incorporation or bylaws with respect to particular types of matters, action of the shareholders would be taken by a majority of the votes cast at the annual meeting, excluding abstentions which would not be counted as votes for or against.

Your vote is important. Accordingly, you are asked to complete, sign and return the accompanying proxy card (or voting instruction sheet for your broker or other nominee), whether or not you plan to attend the annual meeting. If you plan to attend the annual meeting to vote in person and your shares are registered with our transfer agent in the name of a broker or other nominee, you must secure a proxy card from the broker or other nominee assigning voting rights to you for your shares.

Important Notice Regarding Delivery of Security Holder Documents: Future Householding of Mailings to Shareholders who Share the same Residential Address and hold Their Stock in Street Name

In December 2000, the SEC enacted rules allowing multiple shareholders residing at the same address the convenience of receiving a single copy of proxy and information statements, annual reports and prospectuses if they consent to do so. This is known as householding. Individual companies may seek the consent of their shareholders to householding. Brokers and banks maintaining accounts for shareholders may also seek consent to householding. The process of householding allows companies, brokers and banks to reduce the number of copies of materials which must be printed and mailed; this saves printing and mailing costs and reduces the mailbox congestion which results from multiple copies of the same material. Under householding, each shareholder continues to receive a separate proxy card or, in the case of securities held in street name accounts, a separate voting instruction form.

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Some Bone Care stock is held in street name accounts, i.e., by brokers or banks or other intermediaries who maintain accounts for their clients. This year ADP, the agent for most of the brokers and banks who maintain accounts for our shareholders, is soliciting our shareholder consent to future householding. We consent to this future householding. It is expected to result in convenience to shareholders and cost savings to us and the intermediaries.

If you hold your Bone Care stock in street name, and if your broker or other intermediary uses ADP as its agent, and if you have not previously consented directly or indirectly that ADP household materials for the companies whose stock you beneficially own through your street name account, you will receive with this year's Bone Care proxy statement and annual report a separate notice explaining householding. The ADP Voting Instruction Form enclosed with these materials contains a section in which you can indicate your consent to, or objection to, future householding of our mailings. If you do not indicate objection to householding by either checking **Against** on the Voting Instruction Form or calling the number listed on the Voting Instruction Form, you will be deemed to have given your implied consent to future householding, and householding for your account will start 60 days after the date of the ADP mailing of this year's materials to you. Affirmative or implied consent to householding remains in effect until you revoke it by calling the telephone number supplied in the householding election section of the Voting Instruction Form. If you revoke the householding election, you will begin receiving individual copies within 30 days after the revocation.

If you are in a householding group for your street name account and would like, nonetheless, to receive a separate copy of our proxy statement and/or annual report, please write to us at 1600 Aspen Commons, Middleton, WI 53562, Attention: Investor Relations, or call us at 608-662-7800, and we will send you a copy. If you are in a householding group for your street name account and, in the future, would like to stop householding for your street name account or if you initially objected to householding but later decide to consent to householding please call the number provided to you on the ADP Voting Instruction Form.

SECURITIES BENEFICIALLY OWNED BY PRINCIPAL SHAREHOLDERS,**DIRECTORS AND EXECUTIVE OFFICERS**

The following table lists all institutions and individuals known by us to beneficially own more than five percent of our common stock as of October 12, 2004. The table also summarizes information for our directors and executive officers, individually and as a group.

Beneficial ownership is determined in accordance with the rules of the SEC. Beneficial ownership generally includes voting or investment power with respect to securities. Common stock subject to an option that is exercisable within 60 days of October 12, 2004, is deemed to be beneficially owned by the person holding the option when computing ownership but is not treated as outstanding when computing the ownership of any other person. We have determined each beneficial owner's percentage ownership by assuming that stock options held by such person which are exercisable within 60 days of October 12, 2004 have been exercised. Except as indicated by the footnotes to the table below, we believe, based on information provided to us, that the persons and entities named in the table below have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them. Applicable percentage of beneficial ownership is based on 19,415,338 of common stock outstanding as of October 12, 2004.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
State of Wisconsin Investment Board(1) P.O. Box 7842 Madison, WI 53707	2,560,600	13.2
T. Rowe Price Associates, Inc. and T. Rowe Price Small-Cap Value Fund, Inc.(2) 100 E. Pratt Street Baltimore, MD 21202	1,411,000	7.3
Richard B. Mazess, Ph.D.(3) Michael Appelbaum, J.D., CPA	2,052,670	10.6
Paul L. Berns(4)	320,555	1.6

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Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
James V. Caruso(5)	165,833	*
Michael D. Casey(10)	43,000	*
Herbert J. Conrad		
Carmine J. Durham(12)	54,722	*
Jeffrey J. Freitag, M.D.(12)	75,000	*
Brian J. Hayden(12)	62,500	*
Charles R. Klimkowski, CFA(6)	144,300	*
R. Andrew Morgan, R.Ph.(12)	53,333	*
C. Basil Mundy II(8)	53,833	*
Gary E. Nei(7)	58,333	*
Edward Staiano, Ph.D.(9)	58,000	*
Klaus R. Veitinger, M.D., Ph.D., M.B.A.		
All Directors and Executive Officers as a Group (15 persons)(11)	3,148,079	15.4

* Less than 1 percent.

Unless otherwise indicated, the business address of each beneficial owner is Bone Care International, Inc., 1600 Aspen Commons, Middleton, WI 53567.

- (1) Based on Amendment No. 7 to Schedule 13G filed with the SEC on August 9, 2004.
- (2) Based on Amendment No. 7 to Schedule 13G filed with the SEC on February 4, 2004.
- (3) Includes 1,449,870 shares of common stock held by Dr. Mazess in joint tenancy with his wife, 587,500 shares of common stock held by Dr. Mazess as custodian for his daughters, and 15,300 shares of common stock subject to options exercisable within 60 days of October 12, 2004.
- (4) Includes 315,555 shares of common stock subject to options exercisable within 60 days of October 12, 2004.
- (5) Includes 163,333 shares of common stock subject to options exercisable within 60 days of October 12, 2004.
- (6) Includes 88,500 shares of common stock subject to options exercisable within 60 days of October 12, 2004.
- (7) Includes 53,333 shares of common stock subject to options exercisable within 60 days of October 12, 2004.
- (8) Includes 53,333 shares of common stock subject to options exercisable within 60 days of October 12, 2004.
- (9) Includes 48,000 shares of common stock subject to options exercisable within 60 days of October 12, 2004.
- (10) Includes 40,000 shares of common stock subject to options exercisable within 60 days of October 12, 2004.
- (11) Includes 1,022,909 shares of common stock subject to options exercisable within 60 days of October 12, 2004.
- (12) Represents shares of common stock subject to options exercisable within 60 days of October 12, 2004.

PROPOSAL 1 ELECTION OF DIRECTORS

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Our by-laws authorize the board of directors to fix the number of directors, provided that the number shall not be less than five nor more than twelve. Currently, the number is fixed at nine. The by-laws stagger the board of directors by dividing the number of directors into three classes, with one class being elected each year for a term of three years. For the 2004 annual meeting, three directors, Michael A. Appelbaum, Michael D. Casey and Herbert J. Conrad are nominees for election. Effective at the 2004 annual meeting, Richard B.

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Mazess and Gary Nei are retiring from our board of directors. We expect that after the 2004 annual meeting the size of the board of directors will be reduced to seven to reflect those retirements.

The table below sets forth certain information with respect to the nominees for election as directors of Bone Care to serve until the 2007 annual meeting of shareholders. Unless otherwise specified, the shares of common stock represented by the proxies we are soliciting will be voted FOR the election as a director of the persons named below, who have been nominated by the board of directors. If, at or prior to a person's election, any nominee is unwilling or unable to serve, it is presently intended that the proxies being solicited will be voted for a substitute nominee designated by the board of directors. The board of directors has no reason to believe any nominee will be unwilling or unable to serve.

Nominees for Election of a Three Year Term Expiring at the 2007 Annual Meeting:

MICHAEL A. APPELBAUM, J.D., CPA (age 58) has been a director of the Company since September 2004. Mr. Appelbaum was the President and Chief Operating Officer of GenPharm International, Inc., a wholly-owned subsidiary of Medarex, Inc., a public biotechnology company. From July, 1991 until October, 2000, Mr. Appelbaum was Executive Vice President, Finance and Administration, Treasurer and Chief Financial Officer of Medarex, Inc. Mr. Appelbaum was Executive Vice President of Medarex until his retirement on December 31, 2003. Mr. Appelbaum is a director of Medarex, Inc.

MICHAEL D. CASEY (age 58) has been a director of the Company since November 2001. Mr. Casey was the Chairman, President, and Chief Executive Officer and a director of Matrix Pharmaceutical, Inc., a publicly traded cancer therapy company prior to its acquisition by Chiron Corporation in March 2002. Mr. Casey joined Matrix in October 1997 from Schein Pharmaceutical, Inc., a generic and ethical pharmaceutical company, where he was Executive Vice President from November 1995 to December 1996. In 1996 he was appointed President of the retail and specialty products division of Schein. From June 1993 to November 1995, he served as President and Chief Operating Officer of Genetic Therapy, Inc., a biopharmaceutical company. Mr. Casey was President of McNeil Pharmaceutical (a unit of Johnson & Johnson) from 1989 to June 1993 and Vice President, Sales and Marketing, for the Ortho Pharmaceutical Corp. (a subsidiary of Johnson & Johnson) from 1985 to 1989. Mr. Casey is a director of Allos Therapeutics Inc., Celgene Corporation, Cholestech Corporation, Durect Corporation and Orthologic Corporation.

HERBERT J. CONRAD (age 71) has been chairman of our board of directors since February 2004. Mr. Conrad is former President of the U.S. Pharmaceuticals Division of Hoffman-La Roche, Inc. He served as the Chairman of the board of directors of GenVec, Inc. from 1996 to 2003, and was a co-founder of Reliant Pharmaceuticals, LLC. Mr. Conrad has served on the boards of professional associations such as The National Pharmaceutical Council and The Industrial Biotechnology Association. Mr. Conrad is a director of Savient Pharmaceuticals, Inc. and Celltec.

THE BOARD OF DIRECTORS RECOMMENDS YOU VOTE FOR THE NOMINEES NAMED ABOVE TO SERVE ON THE BOARD OF DIRECTORS OF BONE CARE.

The following sets forth certain information about our directors whose terms of office will continue after the 2004 annual meeting.

Incumbent Directors Terms Expiring at the 2005 Annual Meeting of Shareholders:

CHARLES R. KLIMKOWSKI, CFA (age 68) has been a director of the Company since 1999. Prior to his retirement in 1998, Mr. Klimkowski served as Chief Operating Officer and Chief Investment Officer of ABN AMRO Asset Management (USA) Inc. Mr. Klimkowski was a director of Theragenics Corp. from 1992 to 2000, Chairman of Theragenics from 1994 to 1997, and Co-chairperson from 1997 to 1998. Theragenics is a publicly traded company producing and selling implantable radiation devices for the treatment of cancer.

KLAUS R. VEITINGER, M.D., Ph.D., M.B.A. (age 42) has been a director of the Company since March 2004. Dr. Veitinger is a member of the Board of Management for SCHWARZ PHARMA AG and Chief Executive Officer for the company's operations in North America and Asia, positions he has held since 2000. In 1999, Dr. Veitinger was elected to serve on the Board of Pharmaceutical Research and Manufactur-

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ers Association (PhRMA). Since joining Schwarz Pharma in 1990, Dr. Veitinger has held a variety of management posts in the U.S. and Germany in the areas of drug development, strategic planning, mergers and acquisitions, business development and general management.

Incumbent Directors Terms Expiring at the 2006 Annual Meeting of Shareholders:

PAUL L. BERNIS (age 37) has been a director of the Company since June 2002. Mr. Bernis has been director, President and Chief Executive Officer of the Company since June 2002. From March 2001 to April 2002, Mr. Bernis served as Vice President and General Manager of Abbott Labs Immunology, Oncology and Pain. From June 2000 to March 2001, he served as Vice President, Marketing of BASF Pharmaceuticals. From March 1990 to June 2000, Mr. Bernis held various positions of increasing responsibility at Bristol Meyer Squibb with the last position held being Vice President, Neuroscience Marketing.

EDWARD STAIANO, Ph.D. (age 68) has been a director of the Company since November 2001. Dr. Staiano is currently Chairman and Chief Executive Officer of Sorrento Investment Group, a private investment company. From 1996 to 1999, Dr. Staiano was Chairman and Chief Executive Officer of Iridium World Communication Limited, a publicly traded company which subsequently sold all of its assets to Iridium Satellite LLC. From 1973 to 1996, he held various positions at Motorola, a publicly traded electronics corporation where Dr. Staiano last served as the President of General Systems Sector.

Board of Directors Committees and Meetings

The board of directors maintains charters for select committees. To view key committee charters, please visit the Company's website at www.bonecare.com.

The board of directors, which held seven meetings during the year ended June 30, 2004, has an audit committee, a compensation committee and a nominating and corporate governance committee. The following is a brief description of the functions performed by these committees.

Audit Committee

The audit committee of the board of directors oversees our corporate accounting and financial reporting process and assists the board in fulfilling its oversight responsibility to the shareholders and others relating to:

The integrity of our financial statements and the financial reporting process;

The systems of internal controls regarding finance, accounting, legal compliance and ethics;

The performance of our independent auditors;

The annual independent audit and quarterly reviews of our financial statements; and

The independent auditors' qualifications and independence.

In connection with this oversight role, the audit committee performs several functions, including among other things:

Selecting our independent auditors;

Monitoring the rotation of partners of the independent auditors on the Company's engagement team as required by law;

Discussing with management and the independent auditors the adequacy and effectiveness of our accounting and financial controls;

Reviewing the financial statements to be included in our reports filed with the SEC on Forms 10-K and 10-Q; and

Discussing with management and the independent auditors the results of the annual audit and the results of our quarterly financial statements.

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The audit committee operates under a charter adopted by the board of directors. Under its charter, the audit committee must have at least three members, each of whom satisfy the independence, financial literacy and experience requirements of the Securities Exchange Act of 1934, as amended, and the rules and regulations of the SEC, Nasdaq, and any other applicable regulatory requirements. The audit committee is

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currently comprised of Mr. Klimkowski (Chair), Dr. Staiano, Mr. Nei and Mr. Appelbaum, each of whom satisfies those requirements. The audit committee met nine times during the year ended June 30, 2004. The board of directors has determined that Mr. Klimkowski meets the requirements of an audit committee financial expert as defined by the SEC.

Compensation Committee

The compensation committee reviews and approves the compensation for senior management, as well as compensation strategy and compensation policies for the Company. In addition, the compensation committee performs the following functions:

Reviewing and approving our performance objectives relevant to the compensation of the executive officers;

Reviewing and approving the compensation and other terms of employment for our chief executive officer;

Administering our stock option plans and other similar programs; and

Reviewing and determining the officers, employees and consultants to whom stock options should be granted, the number of options and the option price.

The compensation committee is comprised of Mr. Casey (Chair), Dr. Staiano and Dr. Veitinger. During the year ended June 30, 2004, the compensation committee met six times.

Nominating and Corporate Governance Committee

The nominating and corporate governance committee oversees the identification, evaluation and recommendation of individuals qualified to be directors of the Company. The major responsibilities of the nominating and corporate governance committee are:

Recommending to the board individuals to serve as directors;

Reviewing the performance of incumbent non-employee directors and making recommendations for re-election to the board;

Making recommendations on the size and composition of the board and any committee thereof; and

Overseeing the corporate governance guidelines.

The nominating and corporate governance committee operates under a charter adopted by the board, a copy of which is available on the Company's website at www.bonecare.com. Under its charter, the nominating and corporate governance committee must have at least three members, each of whom satisfy the independence requirements of the Securities Exchange Act of 1934, as amended, and the rules and regulations of the SEC, Nasdaq, and any other applicable regulatory requirements. The nominating and corporate governance committee is comprised of Mr. Nei (Chair), Dr. Conrad and Messrs. Casey and Klimkowski, each of whom satisfies those requirements. During the year ended June 30, 2004, the nominating and corporate governance committee met six times.

During the year ended June 30, 2004, all of the directors attended at least 75% of the total number of meetings of the board of directors and committees on which they served. It is the policy of the board to meet in executive session without the presence of management at the time of each regularly scheduled board meeting. The board has the authority to hire its own legal, accounting and other advisors. Our policy is to encourage directors to attend our annual meetings of shareholders. All of the directors attended our 2003 annual meeting of shareholders.

Code of Ethics

We have adopted a code of business conduct and ethics that applies to our board of directors, officers (including our principal executive officer, principal financial officer and principal accounting officer) and employees. We encourage all employees, officers and directors to promptly report any violations of the code to the appropriate persons identified in the code. In the event that an amendment to, or a waiver from, a provision of the code of ethics that applies to our directors or executive officers is necessary, we intend to post that

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information on our website. A copy of our code of business conduct and ethics is posted on our website at www.bonecare.com.

Communication with the Board of Directors

The board has established a process for shareholders and other interested parties to communicate with the board or an individual director. A shareholder may contact the board of directors or an individual director by writing to their attention at our principal executive offices at Bone Care International, Inc., 1600 Aspen Commons, Middleton, Wisconsin 53562.

Nomination of Directors

It is the policy of the nominating and corporate governance committee to consider candidates for director that are recommended by shareholders. The board seeks members from diverse professional backgrounds who combine a broad spectrum of experience and expertise with a reputation for integrity. Directors should have experience in positions with a high degree of responsibility, be leaders in the organizations with which they are affiliated, be selected based on contributions they can make to the board and management and be free from relationships or conflicts of interest that could interfere with the directors duties to the Company and its shareholders.

In identifying and evaluating nominees for director, the committee takes into account the applicable requirements for directors under the Securities Exchange Act of 1934, as amended, and the listing standards of the Nasdaq Stock Market. In addition, the committee may take into consideration such factors and criteria as it deems appropriate, including the nominee's judgment, skill, integrity, diversity, and business or other experience. The committee may (but is not required to) consider candidates suggested by management or other members of the board. The committee evaluates candidates recommended for director by shareholders in the same way it evaluates any other nominee. The committee may from time to time (but is not required to) hire consultants or third party search firms to help the committee identify and/or evaluate potential nominees.

In order to recommend a candidate, shareholders must submit nominations to the Company in accordance with the procedures contained in our bylaws as described under Shareholder Proposals .

Compensation of Directors

Directors of the Company who are also employees of the Company are not separately compensated for their service as directors. Non-employee directors are paid a retainer of \$8,000 per year plus \$2,500 per meeting attended in person or \$1,500 if attended by phone. Committee members are paid \$1,500 per committee meeting attended in person or \$750 if attended by phone. The annual retainer is doubled for the non-employee chairman of the board and meeting attendance fees are doubled for the non-employee chairman of the board and non-employee committee chairmen. Non-employee directors also receive an annual stock option grant to purchase 10,000 shares of common stock, which would be increased to 20,000 shares of common stock if Proposal No. 2 is adopted. Newly elected directors receive an initial one-time grant of a stock option to purchase 20,000 shares upon election to the board, plus a one-time matching option to purchase a number of shares of common stock equal to the number of shares purchased by the director within 90 days of initial election to the board, up to a maximum of 30,000 shares, plus a pro-rated portion of the annual 10,000 share grant. The stock options described in this paragraph expire ten years after their grant date.

AUDIT COMMITTEE REPORT

This Audit Committee Report does not constitute soliciting material and should not be deemed filed or incorporated by reference into any of our other filings under the Securities Act of 1933, as amended, or under the Securities Exchange Act of 1934, as amended, except to the extent that we specifically incorporate this Report by reference therein.

The audit committee of the board oversees our corporate accounting and financial reporting process and assists the board in fulfilling its oversight responsibilities to the shareholders. Management of the Company prepares financial statements in accordance with accounting principles generally accepted in the United States

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and establishes the system of internal controls. The Company's independent auditors are responsible for auditing our financial statements.

The audit committee has reviewed and discussed the audited financial statements of the Company with management and our independent auditors, Deloitte & Touche LLP, prior to their issuance. Additionally, the audit committee has reviewed and discussed all interim financial statements reported on Form 10-Q with management and our auditors prior to their issuance.

The audit committee has discussed with Deloitte & Touche LLP the matters required to be discussed by Statement on Auditing Standards 61, Communication with Audit Committees and has received and reviewed the written disclosures and the letter from Deloitte & Touche LLP required by Independence Standards Board Statement No. 1, Independence Discussions with Audit Committees, and has discussed with Deloitte & Touche LLP their independence, including a review of fees.

The audit committee meetings include, whenever appropriate, executive sessions with Deloitte & Touche LLP with and without the management of the Company present.

Based on the reviews and discussions referred to above, we recommend to the board of directors that the audited financial statements referred to above be included in the Company's Annual Report on Form 10-K for the year ended June 30, 2004, for filing with the SEC.

The Audit Committee (as of September 15, 2004):

Charles R. Klimkowski, CFA, Chairman

Edward Staiano, Ph.D.

Gary E. Nei

INDEPENDENT AUDITOR

The following table presents fees billed to us by Deloitte & Touche LLP, our independent auditors, for the fiscal years ended June 30, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
	(In thousands)	
Audit Fees	\$ 62	\$ 67
Audit-Related Fees	2	
Tax Fees	50	48
All Other Fees	44	
	<u> </u>	<u> </u>
Total Fees	\$ 158	\$ 115
	<u> </u>	<u> </u>

We did not retain Deloitte & Touche LLP for financial information system design and implementation during the year ended June 30, 2004. Audit-related fees for the year ended June 30, 2004 consisted of consulting fees related to the implementation of an internal control structure and procedures for financial reporting as contemplated by Section 404 of the Sarbanes-Oxley Act of 2002. Tax fees for the years ended June 30, 2003 and June 30, 2004 consisted of tax consultation and tax compliance services. All other fees for the year ended June 30, 2004 consisted of fees related to our offering of common stock. The audit committee considered whether, and has determined that, the provision of non-audit services is compatible with maintaining the independent auditors' independence.

The audit committee's policies and procedures require pre-approval for all audit and permissible non-audit service (subject to a de minimus exception for up to \$25,000 of permissible non-audit services annually) to be performed by our independent auditors. These services are generally pre-approved by the entire audit committee. In the year ended June 30, 2004, less than 1% of the services performed by Deloitte & Touche LLP were not pre-approved. Such services related to tax compliance/preparation work and were subsequently approved by the audit committee in accordance with the rules of the SEC.

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As of October 1, 2004, our executive officers are as follows:

Name	Age	Position
Paul L. Berns	37	President and CEO
James V. Caruso	44	Senior Vice President Sales and Marketing
Carmine J. Durham	38	Vice President Corporate Development
Jeffrey J. Freitag	57	Vice President Research & Development
Brian J. Hayden	52	Vice President Finance
R. Andrew Morgan	46	Vice President Regulatory Affairs, Quality and Compliance
C. Basil Mundy II	57	Vice President Government Affairs

Paul L. Berns has served as our President and CEO and as a director since June 2002. Mr. Berns served as Vice President and General Manager of Abbott Labs Immunology, Oncology and Pain from March 2001 to April 2002. From June 2000 to March 2001, he served as Vice President, Marketing of BASF Pharmaceuticals. From March 1990 to June 2000, Mr. Berns held various positions of increasing responsibility at Bristol Meyer Squibb with the last position held being Vice President, Neuroscience Marketing.

James V. Caruso has served as our Senior Vice President Sales and Marketing since November 2003 and as our Vice President Sales since August 2002. Mr. Caruso was Vice President of Sales of the Neuroscience Business Unit at Novartis from June 2001 to August 2002. Mr. Caruso was Vice President of Sales at BASF Pharmaceuticals from June 2000 to June 2001 and from 1988 to June 2000; Mr. Caruso held several positions at Bristol-Myers Squibb including Director of Sales West Coast and Senior Director of Marketing.

Carmine J. Durham has served as our Vice President Corporate Development since July 2004 and prior to that time as our Vice President Marketing since November 2002 and previously served as Senior Director of Marketing beginning in September 2002. Mr. Durham was formerly Business Unit Director, Marketing at Abbott Laboratories from March 2001 to September 2002. In addition, Mr. Durham held several positions at BASF Pharma from November 1997 to March 2001 including Director of Marketing and several positions at Boehringer Mannheim Corporation Therapeutics from 1992 to 1997 including Manager of Sales Operations and Marketing Manager of Corporate Accounts.

Jeffrey J. Freitag, M.D., has served as our Vice President Research and Development since June 2003. Dr. Freitag held senior Clinical Research positions at PharmaNet Inc. from 1997 until May 2003, including Senior Vice President, Medical and Scientific Affairs. His prior appointments include Vice President, New Clinical Drug Development at The Liposome Company from 1994 to 1997, Director, Clinical Research at Wallace Laboratories from 1987 to 1994 and Associate Director, Clinical Research, Cardiovascular Drugs at Wyeth Laboratories from 1985 to 1987. Dr. Freitag is board-certified in Internal Medicine and Nephrology.

Brian J. Hayden has served as our Vice President Finance since October 2003. Mr. Hayden was formerly Vice President, Finance, Chief Financial Officer and Treasurer of Cell Pathways, Inc. from November 1997 until its acquisition by OSI Pharmaceuticals, Inc. in June 2003. Since 1985, Mr. Hayden has served as the senior financial executive in five different life science companies, both public and private. From 1976 to 1985, Mr. Hayden served in senior financial management positions for Hoffmann-La Roche, Inc. From 1975 to 1976, he served on the audit staff of Coopers and Lybrand LLP (now PricewaterhouseCoopers LLP).

R. Andrew Morgan, R.Ph., has served as our Vice President Regulatory Affairs, Quality and Compliance since April 2002. Mr. Morgan was Director of Regulatory Affairs for Celltech Pharmaceuticals from November 1997 to March 2002. His prior appointments include Manager of Regulatory Affairs for Medeva, Inc. from May 1994 to November 1997 and Senior Regulatory Affairs Associate for Adams Laboratories from June 1991 to May 1994. Mr. Morgan also worked seven years as a clinical Pharmacist and Manager at All Saints Hospital.

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C. Basil Mundy II has served as our Vice President Governmental Affairs since July 2004 and prior to that time was our Vice President Corporate Development since November 2002 and was formerly Vice President Marketing beginning in January 2002. Mr. Mundy held several senior marketing positions at Celltech Pharmaceuticals from July 2000 to December 2001. His prior appointments include Vice President, Marketing at MGI Pharma from December 1997 to March 1999, Director, INFED Sales at Schein Pharmaceutical from January 1996 to December 1997, and Marketing Director for the National Kidney Foundation from May 1995 to January 1996. Mr. Mundy was previously employed by Johnson and Johnson, Ortho Biotech Inc. for 27 years.

EXECUTIVE COMPENSATION

Compensation of Executive Officers

Compensation Committee Report on Executive Compensation

This Compensation Committee Report on Executive Compensation does not constitute soliciting material and should not be deemed filed or incorporated by reference into any of our other filings under the Securities Act of 1933, as amended, or under the Securities Exchange Act of 1934, as amended, except to the extent that we specifically incorporate this Report by reference therein.

Compensation Philosophy and Policies. Our fundamental executive compensation philosophy is to enable us to attract and retain key executive personnel and to motivate those executives to achieve our objectives. Prior to our fiscal quarter ended March 31, 2004, the Company had not achieved profitability; therefore, some of the traditional methods of evaluating executive performance, such as profitability and return on equity, were not appropriate. Accordingly, assessment of each executive's performance has been based on attainment of his specific personal objectives in light of our overall strategic goals. Among other things, we review three specific areas in formulating the compensation packages of our executive officers. These areas are as follows:

Our Company's overall performance:

The extent to which our key sales, research, clinical, development, manufacturing and financial objectives have been met during the preceding fiscal year.

Accessing capital to fund our research, development, operations and other business activities.

Executive performance:

An executive's involvement in and responsibility for the development and implementation of strategic plans and the attainment of our strategic and operating objectives, along with achievement of agreed upon personal objectives.

The involvement of an executive in personnel recruitment, retention and morale.

The responsibility of the executive in working within operating budgets, controlling costs and other aspects of expense management.

Other factors:

We consider the necessity of being competitive with companies in the pharmaceutical and biotechnology industry, taking into account relative company size, stage of development, performance and geographic location as well as individual responsibilities and performance.

We consider the need to provide reasonable incentives to management based on performance, independent of market conditions that may be beyond our control.

Each executive officer's compensation package is reviewed annually and has been comprised of up to three components: base salary, cash bonuses and stock options and/or restricted stock units. In addition to these components, executive officers generally are eligible to participate in all employee benefit programs generally available to all of our employees.

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Base Salary: In setting the base salary levels for each executive officer, we review surveys and other available information on the base salaries of executive officers in comparable positions at other pharmaceutical and biotechnology companies. Factors considered include, but are not limited to, company size, stage of development and geographic location. We also consider the individual experience level and actual performance of each executive officer in light of our needs and objectives.

Bonus Awards: As part of the review and setting of annual compensation, cash bonuses tied to the achievement of certain corporate objectives and certain specific personal objectives have been awarded to executive officers. For fiscal year 2005, we have adopted a defined plan whereby certain specific company objectives must be attained before the executive officers are eligible for bonuses.

Stock Incentive Awards: The compensation committee has the authority to grant to the executive officers incentive and non-qualified stock options and other equity-based awards, including restricted stock units. Awards generally vest at various times in excess of one year from their date of grant, and are intended as incentive and motivation for our executive officers, as well as to align the interest of those officers more closely with those of our shareholders in advancing corporate objectives. All of our executive officers have been granted awards under the stock incentive plans.

Compensation of the Chief Executive Officer. Since his hire in June 2002 through fiscal year end 2003, Mr. Berns' annual base salary was \$350,000. Mr. Berns' salary was determined in accordance with the criteria outlined above. Also, in fiscal years 2003 and 2004, Mr. Berns received a \$600,000 sign-on payment, in connection with Mr. Berns' acceptance of employment with the Company. Mr. Berns' annual base salary for the year ended June 30, 2004 was \$360,500.

Based on its evaluation of Mr. Berns' performance, the compensation committee believes that Mr. Berns' compensation level appropriately reflects his performance and is consistent with his peers in the industry.

Deductibility of Compensation Expenses. Current U.S. tax law has a \$1 million annual tax deduction limit on compensation we pay to our Chief Executive Officer and our four other most highly compensated executive officers. The limit does not apply to qualified performance-based compensation, as defined under the United States Tax Code and related regulations and as described under Proposal No. 2 Approval of Amendments to the 2003 Stock Incentive Plan Section 162(m) of the Code. Compensation is performance-based if we can pay it only if objective pre-established performance criteria set by the compensation committee are met. The compensation committee may use its discretion to set actual compensation below the maximum amount calculated by application of our performance criteria.

The compensation committee's general policy is to structure compensation programs that allow us to fully deduct the compensation under the above described \$1 million limit rules. The compensation committee also believes that we need flexibility to meet our incentive and retention objectives, even if we may not deduct all compensation.

Respectfully submitted,

The Compensation Committee:

Michael D. Casey, *Chairman*
Edward Staiano, Ph.D.
Klaus R. Veitinger, M.D., Ph.D., M.B.A.

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The following table summarizes information regarding compensation during the fiscal years ended June 30, 2004, 2003 and 2002 for our President and Chief Executive Officer and our four other most highly compensated executive officers.

Name and Principal Position	Fiscal Year	Annual Compensation			Long-Term Compensation		
		Salary (\$)	Bonus (\$)(1)	Other Annual Compensation (\$)	Restricted Stock Awards (\$)	Securities Underlying Options (#)	All Other Compensation (\$)
Paul L. Berns	2004	360,500	180,250	600,000(7)	739,200(9)	80,000	106,000(10)
President and Chief Executive Officer	2003	350,000	175,000	600,000(7)		360,000	191,863(11)
	2002	20,192(2)					70,000(11)
James V. Caruso	2004	285,050	146,000	100,000(8)	422,400(9)	45,000	9,501(12)
Senior Vice President Sales & Marketing	2003	249,231(3)	135,000	300,000(8)		200,000	2,492(12)
	2002						
Jeffrey J. Freitag, M.D.	2004						