ZONAGEN INC
Form DEF 14A
May 23, 2005

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SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant þ

Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement

o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

þ Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material Pursuant to § 240.14a-11(c) or § 240.14a-12

ZONAGEN, 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):

þ No fee required.

o Fee computed on table below per Exchange Act Rules 14a-6(i)(4) 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:

5) Total fee paid:

o Fee paid previously with preliminary materials.

o 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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Zonagen, Inc.
2408 Timberloch Place, Suite B-1
The Woodlands, Texas 77380

May 23, 2005

TO OUR STOCKHOLDERS:

You are cordially invited to attend the 2005 Annual Meeting of Stockholders of Zonagen, Inc. to be held on Tuesday, June 21, 2005, at 5:00 p.m., Eastern Daylight Time, at the Marriott New York East Side Hotel, 525 Lexington Avenue, New York, New York. A Notice of the Annual Meeting, Proxy Statement and form of Proxy are enclosed with this letter.

We encourage you to read the Notice of the Annual Meeting and Proxy Statement so that you may be informed about the business to come before the meeting. Your participation in the Company s business is important, regardless of the number of shares that you hold. To ensure your representation at the meeting, please promptly sign and return the accompanying proxy card in the postage-paid envelope. **We urge you to vote regardless of whether you expect to attend the Annual Meeting so that we may ensure that a quorum is present**.

We look forward to seeing you on June 21, 2005.

Sincerely,

/s/ Joseph S. Podolski

Joseph S. Podolski
President and Chief Executive Officer

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NOTICE OF ANNUAL MEETING OF STOCKHOLDERS TO BE HELD JUNE 21, 2005

To the Stockholders of Zonagen, Inc.:

The Annual Meeting of Stockholders (the Annual Meeting) of Zonagen, Inc. (the Company) will be held on Tuesday**,** June 21, 2005, at 5:00 p.m., Eastern Daylight Time, at the Marriott New York East Side Hotel, 525 Lexington Avenue, New York, New York, for the following purposes:

1. To elect a board of seven directors of the Company, each to serve until the Company s next Annual Meeting of Stockholders or until their respective successors have been duly elected and qualified;

2. To ratify and approve the appointment of PricewaterhouseCoopers LLP as the Company s registered independent public accounting firm for its fiscal year ending December 31, 2005; and

3. To act on such other business as may properly come before the Annual Meeting or any adjournments thereof.

Only stockholders of record at the close of business on May 19, 2005 will be entitled to notice of and to vote at the Annual Meeting.

It is important that your shares be represented at the Annual Meeting regardless of whether you plan to attend. THEREFORE, PLEASE MARK, SIGN AND DATE THE ENCLOSED PROXY AND RETURN IT IN THE ACCOMPANYING POSTAGE-PAID ENVELOPE AS PROMPTLY AS POSSIBLE. If you are present at the Annual Meeting, and wish to do so, you may revoke the proxy and vote in person. In order to be able to have your vote counted at the Annual Meeting, you need to have written documentation that you are a record holder or, if you own your shares through a brokerage or other type account, written documentation from the account holder that you are the beneficial owner of the shares you are voting.

By Order of the Board of Directors,

/s/ Louis Ploth, Jr.

Louis Ploth, Jr.
Secretary

The Woodlands, Texas
May 23, 2005

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Zonagen, Inc.
2408 Timberloch Place, Suite B-1
The Woodlands, Texas 77380

PROXY STATEMENT
FOR
ANNUAL MEETING OF STOCKHOLDERS

To Be Held June 21, 2005

SOLICITATION AND REVOCABILITY OF PROXIES

The accompanying Proxy is solicited by the Board of Directors of Zonagen, Inc. (the Company), to be voted at the Annual Meeting of Stockholders (Annual Meeting) of the Company to be held on Tuesday, June 21, 2005, at 5:00 p.m., Eastern Daylight Time, at the Marriott New York East Side Hotel, 525 Lexington Avenue, New York, New York, for the purposes set forth in the accompanying Notice of Annual Meeting of Stockholders, and at any adjournment(s) of the Annual Meeting. If the accompanying Proxy is properly executed and returned, the shares it represents will be voted at the Annual Meeting in accordance with the directions noted thereon or, if no direction is indicated, it will be voted in favor of the proposals described in this Proxy Statement. In addition, the Proxy confers discretionary authority to the persons named in the Proxy authorizing those persons to vote, in their discretion, on any other matters properly presented at the Annual Meeting. The Board of Directors is not currently aware of any such other matters.

Each stockholder of the Company has the unconditional right to revoke his Proxy at any time prior to its exercise, either in person at the Annual Meeting or by written notice to the Company addressed to Secretary, Zonagen, Inc., 2408 Timberloch Place, Suite B-1, The Woodlands, Texas 77380. No revocation by written notice will be effective unless such notice has been received by the Secretary of the Company prior to the day of the Annual Meeting or by the inspector of election at the Annual Meeting. If you are present at the Annual Meeting, in order to be able to have your vote counted at the Annual Meeting and thus, to revoke your prior valid vote, you need to have written documentation that you are a record holder or, if you own your shares through a brokerage or other type account, written documentation from the holder of record that you are the beneficial owner of the shares you are voting.

The principal executive offices of the Company are located at 2408 Timberloch Place, Suite B-1, The Woodlands, Texas 77380. This Proxy Statement and the accompanying Notice of Annual Meeting of Stockholders and Proxy are being mailed to the Company s stockholders on or about May 23, 2005.

In addition to the solicitation of proxies by use of this Proxy Statement, directors, officers and employees of the Company may solicit the return of proxies by mail, personal interview, telephone or the Internet. Officers and employees of the Company will not receive additional compensation for their solicitation efforts, but they will be reimbursed for any out-of-pocket expenses incurred. Brokerage houses and other custodians, nominees and fiduciaries will be requested, in connection with the stock registered in their names, to forward solicitation materials to the beneficial owners of such stock.

All costs of preparing, printing, assembling and mailing the Notice of Annual Meeting of Stockholders, this Proxy Statement, the enclosed form of Proxy and any additional materials, as well as the cost of forwarding solicitation materials to the beneficial owners of stock and all other costs of solicitation, will be borne by the Company.

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PURPOSES OF THE MEETING

At the Annual Meeting, the Company s stockholders will be asked to consider and act on the following matters:

1. Electing a board of seven directors of the Company, each to serve until the Company s next Annual Meeting of Stockholders or until their respective successors have been duly elected and qualified;

2. Ratifying and approving the appointment of PricewaterhouseCoopers LLP as the Company s registered independent public accounting firm for its fiscal year ending December 31, 2005; and

3. Acting on such other business as may properly come before the Annual Meeting or any adjournments thereof.

QUORUM AND VOTING

The close of business on May 19, 2005 has been fixed as the record date (the Record Date) for the determination of stockholders entitled to vote at the Annual Meeting and any adjournment(s) thereof. As of the Record Date, the Company had issued and outstanding 10,079,601 shares of the Company s common stock, par value $.001 share (the Common Stock).

Each stockholder of record of Common Stock will be entitled to one vote per share on each matter that is called to vote at the Annual Meeting. Shares of Common Stock may not be voted cumulatively.

The presence, either in person or by Proxy, of holders of shares representing a majority of the Common Stock entitled to be cast at the Annual Meeting is necessary to constitute a quorum at the Annual Meeting. Abstentions and broker non-votes are counted for purposes of determining the presence or absence of a quorum for the transaction of business. Broker non-votes occur when a broker or other nominee does not have discretionary authority to vote the shares with respect to a particular matter and has not received voting instructions from the beneficial owner with respect to that matter. A plurality vote is required for the election of directors. Accordingly, if a quorum is present at the Annual Meeting, the seven persons receiving the greatest number of votes cast at the Annual Meeting will be elected to serve as directors. Thus, abstentions and broker non-votes will not affect the outcome of the election of directors.

All other matters to be voted on will be decided by the vote of the holders of shares representing a majority of the votes present or represented at the Annual Meeting and entitled to vote on such matter. Shares represented at the meeting but that abstain with respect to these proposals will be considered in determining whether the requisite number of affirmative votes are cast on such matter. Accordingly, such abstentions will have the same effect as a vote against the ratification of the reappointment of PricewaterhouseCoopers LLP as the Company s registered independent public accounting firm. Broker non-votes will not be treated as shares represented at the meeting and entitled to vote for purposes of this proposal, and therefore will have no effect.

All Proxies that are properly completed, signed and returned prior to the Annual Meeting will be voted. Any Proxy given by a stockholder may be revoked at any time before it is exercised by the stockholder by (i) filing with the Secretary of the Company an instrument revoking it, (ii) executing and returning a Proxy bearing a later date or (iii) attending the Annual Meeting and expressing a desire to vote his shares of Common Stock in person. If you wish to vote in person at the meeting but hold your stock in street name (that is, in the name of a broker, bank or other institution), then you must have a proxy from the broker, bank or institution in order to vote at the meeting. Votes will be counted by Computershare Investor Services, LLC, the Company s transfer agent and registrar.

PROPOSAL NUMBER 1:

ELECTION OF DIRECTORS

The Board of Directors has nominated and urges you to vote for the election of Joseph S. Podolski, the Company s President and Chief Executive Officer, Louis Ploth, Jr., the Company s Vice President, Business Development and Chief Financial Officer, Daniel F. Cain, Jean L. Fourcroy, M.D., Ph.D., M.P.H., Jeffrey R. Harder, Nola Masterson and David Poorvin, Ph.D., all of whom have been nominated to serve as directors until the next Annual Meeting of Stockholders or until their successors are duly elected and qualified. Mr. Harder was nominated for election to the Board of Directors by the Company s Board for a term to begin at the Annual Meeting. All of the Company s current directors unanimously recommended Mr. Harder for election to the Company s Board of Directors. The chart below provides information regarding each nominee. Proxies solicited hereby will be voted for all nominees unless stockholders specify otherwise in their Proxies.

If, at the time of or prior to the Annual Meeting, any of the nominees should be unable or decline to serve, the discretionary authority provided in the Proxy may be used to vote for a substitute or substitutes designated by the Board of Directors. The Board of Directors has no reason to believe that any substitute nominee or nominees will be required.

Nominees for Election as Directors

The names of the nominees for election as directors, and certain additional information with respect to each of them, are set forth below.

Name	Age	Position with the Company	Year First Became Director
Joseph S. Podolski	57	President and Chief Executive Officer and Director	1992
Louis Ploth, Jr.	51	Vice President, Business Development and Chief Financial Officer and Director	2004
Daniel F. Cain	59	Director	2004
Jean L. Fourcroy, M.D., Ph.D., M.P.H.	74	Director	2004
Jeffrey R. Harder	52	Director	N/A
Nola Masterson	58	Director	2004
David Poorvin, Ph.D.	58	Director	2004

Joseph S. Podolski. Mr. Podolski joined the Company in 1989 as Vice President of Operations and has served as President and Chief Executive Officer of the Company and as a director since 1992. Previously, Mr. Podolski spent twelve years in various engineering, product development and manufacturing positions at G.D. Searle, a subsidiary of Monsanto Company. Before joining Monsanto, Mr. Podolski held positions in manufacturing, engineering, quality control and development of fine chemicals, antibiotics, pharmaceuticals and hospital products with Abbott Laboratories, Dearborn Chemical Company and Baxter Pharmaceuticals. Mr. Podolski holds a M.S. degree in chemical engineering from the Illinois Institute of Technology.

Louis Ploth, Jr. Since January 2001, Mr. Ploth has served as Chief Financial Officer, Vice President, Business Development and Secretary. He served as Vice President, Finance from March 1999 to January 2001. He had previously served as Chief Financial Officer and Vice President, Business Development from 1993 to 1998 and as Chief Financial Officer from 1998 to March 1999 at which time he also served as General Manager of Fertility

Technologies, Inc., a former subsidiary of the Company. Previously, Mr. Ploth was employed by Unisyn Technologies where he served concurrently as Chief Financial Officer and as Vice President of Finance and Administration. Mr. Ploth was also Corporate Controller of Synbiotics Corporation. Mr. Ploth has over 23 years of corporate financial and business development experience, with over 19 years experience in the biotechnology industry. Mr. Ploth has a B.S. degree from Montclair State College.

Daniel F. Cain. Since October 1994, Mr. Cain has provided consulting services for small businesses. Since May 2000, he has also served as acting chief executive officer of Wireless Medical, Inc., a Colorado-based medical device company. From 1969 to 1994, Mr. Cain held various positions with Miles Laboratories, Inc., Hexcel Corporation, Scripps-Miles, Inc., Synbiotics Corporation and Heska Corporation. Mr. Cain has 35 years of broad

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business experience including 26 years with medical companies. Sixteen of these years were with three different biotech startup companies, one of which he co-founded. Mr. Cain has held a wide variety of executive level management positions including chief executive officer, president and chief financial officer. Mr. Cain earned a B.S. degree from LeTourneau College and a M.B.A. degree from Indiana University.

Jean L. Fourcroy, M.D., Ph.D., M.P.H. Dr. Fourcroy was engaged as a Medical Officer with the U.S. Food and Drug Administration (the FDA) from 1988 to 2001. Since leaving the FDA, Dr. Fourcroy has been a consultant to the industry and a featured speaker and panel member in numerous meetings and symposia. Dr. Fourcroy is a member of the Board of Directors of the U.S. Anti-Doping Agency and is a Past President of the American Medical Women s Association. Dr. Fourcroy is the recipient of a 1998 American Urological Association Presidential Citation Award, the 1999 Camille Mermod Award from the American Medical Women s Association, and an Outstanding Service Award from the American Society of Andrology in April 2000. Dr. Fourcroy received her M.D. from the Medical College of Pennsylvania and her Ph.D. from the University of California at San Francisco. Her surgery and urology residencies were completed at George Washington University Medical Center with Board Certification in Urology in 1981. In 1999, she received her Masters in Public Heath from the Medical College of Wisconsin.

Jeffrey R. Harder. Mr. Harder is being nominated for the first time to Zonagen s Board of Directors for election at the Annual Meeting. He has been a shareholder of Winstead Sechrest & Minick P.C., a Texas-based law firm, since April 2004, and he is chairman of the firm s Biotechnology Practice Group. From January 1999 to April 2004, he was the Managing Partner of The Woodlands, Texas office of Andrews Kurth LLP, an office he started for Andrews Kurth in 1993 to service the biotech companies located in The Woodlands. From July 1996 to July 1998, Mr. Harder was Vice President-Corporate Development and General Counsel of The ForeFront Group, Inc., a Nasdaq National Market company founded by Baylor College of Medicine to commercialize software for the scientific community. Mr. Harder has over 20 years of experience in representing biotech, life science and software companies, both public and private, as well as investors, venture capitalists, technology transfer departments and entrepreneurs engaged in commercializing inventions. He obtained his BA degree from Valparaiso University in 1975 and his JD from the University of Illinois in 1978.

Nola Masterson. Ms. Masterson has been the chief executive officer of Science Futures Inc., an investment and advisory firm, since 1982. Ms. Masterson is currently Managing Member and General Partner of Science Futures LLC, I, II & III, which are all venture capital funds invested in life science funds and companies. She also serves as a Senior Advisor to TVM Techno Venture Management, an international venture capital company. Ms. Masterson was the first biotechnology analyst on Wall Street, working with Drexel Burnham Lambert and Merrill Lynch, and is a co-founder of Sequenom, Inc., a genetic analysis company located in San Diego and Hamburg, Germany. She also started the BioTech Meeting in Laguna Nigel, CA, the annual Biopharmaceutical Conference in Europe, and was nominated to the 100 Irish American Business List in 2003. Ms. Masterson began her career at Ames Company, a division of Bayer, and spent eight years at Millipore Corporation in sales and sales management. Ms. Masterson has 29 years of experience in the life science industry. She received her Masters in Biological Sciences from George Washington University, and continued Ph.D. work at the University of Florida.

David Poorvin, Ph.D. Dr. Poorvin is currently an Executive-in-Residence at Oxford Bioscience Partners, a venture capital company. Dr. Poorvin also is engaged in private consulting for biotech companies. At the end of 2003, Dr. Poorvin retired from Schering-Plough Corporation as Vice President of their Business Development operations where he negotiated licenses, joint ventures and acquisitions of pharmaceutical products and research technologies. Dr. Poorvin s career at Schering Plough from 1981 to 2003 included 14 years in Business Development as well as tenure as the Director of Clinical Research at Schering-Plough, a position he also held at Pfizer Pharmaceuticals from 1977 to 1981. He was responsible for several NDA programs and product approvals at both companies, including such drugs as Procardia and Imdur. Dr. Poorvin started his career in the pharmaceutical industry at Lederle Laboratories from 1973 to 1977, where he directed pre-clinical research in the cardiovascular area. Dr. Poorvin has over 30 years of experience in the pharmaceutical industry. He received his B.A. degree from Hunter College of the City University of New York and his Ph.D. from Rutgers University.

The Board of Directors recommends that stockholders vote FOR the election of each of the above-named nominees, and Proxies executed and returned will be so voted unless contrary instructions are indicated thereon.

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Directors Meetings and Compensation

The Company s operations are managed under the broad supervision of the Board of Directors, which has ultimate responsibility for the establishment and implementation of the Company s general operating philosophy, objectives, goals and policies. Our Board is currently comprised of a majority of independent directors. The Board has determined that Drs. Fourcroy and Poorvin, Mr. Cain and Ms. Masterson are independent as independence is defined under the listing standards for The Nasdaq Stock Market. The Board based these determinations primarily on a review of the responses our directors provided to questions regarding employment and compensation history, affiliations and family and other relationships. During 2004, the Board of Directors convened on 11 occasions. All directors attended at least 75% of the meetings held by the Board and any committee of the Board on which he or she served during his or her tenure in 2004. The Company s current policy is to have its directors attend the Company s annual meeting of stockholders. All of the Company s directors were available at the Company s 2004 annual meeting of stockholders.

Employee directors do not receive additional compensation for service on the Board of Directors or its committees. The Company reimburses each non-employee director for travel expenses incurred in connection with attendance at Board meetings. For regular board and Committee meetings attended in person or telephonically, non-employee directors currently receive $2,000 per meeting in cash. Employee directors are eligible to participate in the Company s 2004 Employee and Consultant Stock Option Plan (the Incentive Plan). Non-employee directors are entitled to participate in the Company s 2000 Non-employee Directors Stock Option Plan (the 2000 Director Plan).

Under the 2000 Director Plan, (i) each non-employee director who is first elected to the Board is entitled to receive an option to purchase 40,000 shares of the Company s Common Stock on the date on which he first becomes a non-employee director, and (ii) each non-employee director in office immediately after each subsequent annual meeting of stockholders will receive an option to purchase 5,000 shares of Common Stock effective on such date. Additionally under the 2000 Director Plan, the Chairman of the Board (if a non-employee) who is first elected to the Board is entitled to receive an option to purchase 10,000 shares of Common Stock on the date on which he first becomes Chairman, and the Chairman (if a non-employee) in office immediately after each subsequent annual meeting of stockholders will receive an option to purchase 10,000 shares of Common Stock effective on such date. The Company has not had a Chairman of the Board since January 2004.

During 2004, the Company paid an aggregate of $53,000 to its non-employee directors. The Company granted options to purchase an aggregate of 215,000 shares of Common Stock to non-employee directors during 2004.

Board Committees

Pursuant to delegated authority, various Board functions are discharged by the standing committees of the Board. The Board of Directors has appointed three principal standing committees: the Compensation and Option Committee, the Nominating and Corporate Governance Committee and the Audit Committee. Copies of the Audit Committee Charter, the Compensation and Option Committee Charter and the Nominating and Corporate Governance Committee Charter are available in the Corporate Governance section of the Company s web site at http://www.zonagen.com. In addition, the Company has adopted a Code of Business Conduct and Ethics for directors, officers and employees and a Code of Ethics for Senior Financial Officers, which are available on the Corporate Governance Section of the Company s website at http://www.zonagen.com. If any substantive amendments are made to either code, the nature of such amendment will be disclosed on the Company s website. In addition, if a waiver from either code is granted to an executive officer, director or principal accounting officer, the nature of such waiver will be disclosed on the Company s website.

Audit Committee. The Audit Committee, currently comprised of Mr. Cain, as Chairman, Ms. Masterson and Dr. Poorvin, provides assistance to the Board of Directors in fulfilling its responsibilities relating to corporate accounting and reporting practices, recommends to the Board of Directors the engagement by the Company of its independent public accountants, approves services performed by the Company s independent public accountants, including fee arrangements and the range of audit and non-audit services, maintains a direct line of communication between the Board of Directors and the Company s independent public accountants and performs such other functions as may be prescribed with respect to audit committees under applicable rules, regulations and policies of The Nasdaq Stock Market, Inc. The Audit Committee also evaluates the Company s system of internal controls, the internal audit function and other related areas. The Audit Committee meets quarterly and convened four times in 2004.

As required by The Nasdaq Stock Market and Securities and Exchange Commission (the Commission) rules regarding audit committees, the Board of Directors has reviewed the qualifications of its Audit Committee and has determined that none of the current members of the Audit Committee have a relationship with the Company that might interfere with the exercise of their independence from the Company or its management and has determined that each member of the Audit Committee is independent, as independence is defined in the listing standards for The Nasdaq Stock Market. The Board of Directors has determined that Mr. Cain, Chairman of the Audit Committee, is an audit committee financial expert as described in Item 401(h) of Regulation S-K.

Compensation and Option Committee. The Compensation and Option Committee, currently comprised of Ms. Masterson and Dr. Poorvin, selects the employees to whom stock options are to be granted, determines the terms and conditions provided for in each option grant and reviews and recommends to the Board of Directors the amount of compensation to be paid to officers of the Company. The Compensation and Option Committee convened two times in 2004. The Board of Directors has determined that each member of the Compensation and Option Committee is independent, as independence is defined in the listing standards for The Nasdaq Stock Market.

Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee is currently comprised of Drs. Fourcroy and Poorvin, Mr. Cain and Ms. Masterson. The Nominating and Corporate Governance Committee investigates and makes recommendations to the Board with respect to qualified candidates to be nominated for election to the Board and reviews and makes recommendations to the Board of Directors with regard to candidates for directors nominated by stockholders in accordance with the Company s bylaws. This committee also investigates and makes recommendations to the Board with regard to all matters of corporate governance, including the structure, operation and evaluation of the Board and its committees. The Nominating and Corporate Governance Committee was formed in February 2004 and met 4 times during 2004. The Board of Directors has determined that each member of the Nominating and Corporate Governance Committee is independent, as independence is defined in the listing standards for The Nasdaq Stock Market.

Executive Sessions of the Board of Directors. The Company s policy is to have its Non-Management Directors meet regularly in executive sessions following at least two of its regularly scheduled meetings of the Board of Directors in a calendar year. Non-Management Directors are all those Directors who are not employees of the Company and does not include Directors, if any, who are not independent as determined by the Board of Directors. The Non-Management Directors presently consist of all current Directors except Messrs. Podolski and Ploth. The independent Non-Management Directors will meet in executive session at least twice per year, in connection with a regularly scheduled meeting of the Board of Directors.

Communications with Directors. The Company s security holders and other interested parties may communicate with one or more of its Directors (including any presiding Director or the Non-Management Directors as a group) by mail in care of Secretary, Zonagen, Inc., 2408 Timberloch Pl., Suite B-1, The Woodlands, Texas 77380. Such communications should specify the intended recipient or recipients. All such communications, other than commercial solicitations or communications, will be forwarded to the appropriate Director or Directors.

Stockholder Nominations. The Nominating and Corporate Governance Committee will consider proposals for nominees for Director from others. In order to nominate a Director at the Annual Meeting, the Company s Bylaws require that a stockholder follow the procedures set forth in Section 2.12 of the Company s Bylaws (available on the Company s web site at http://www.zonagen.com). In order to recommend a nominee for a Director position, a stockholder must be a stockholder of record at the time the stockholder gives notice of its recommendation and the stockholder must be entitled to vote for the election of Directors at the meeting at which such nominee will be considered. Stockholder recommendations must be made pursuant to written notice delivered to the Company s principal executive offices no less than 50 days nor more than 75 days prior to the date of the annual or special meeting at which Directors are to be elected; provided, that if the date of the annual or special meeting was not publicly announced more than 65 days prior to the annual or special meeting, such notice by the stockholder will be timely if delivered to the Secretary no later than the close of business on the 15th day following the day on which such announcement of the date of the meeting was communicated to the stockholders.

The stockholder notice must set forth the following:

1. As to each person the stockholder proposes to nominate for election as a Director, all information relating to such person that would be required to be disclosed in solicitations of proxies for the election of such

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nominees as Directors pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the Exchange Act);

2. The written consent to serve as a director if elected by each person nominated;

3. Name and address of the stockholder as they appear on the Company s books; and

4. The class and number of shares of Common Stock beneficially owned by such stockholder.

In addition to complying with the foregoing procedures, any stockholder nominating a director must also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder.

Nominating and Corporate Governance Committee Nominations. The Nominating and Corporate Governance Committee selects each nominee based on the nominee s skills, achievements and experience. The following will be considered, among other things, in selecting candidates for the Board of Directors: knowledge, experience, and skills in areas critical to understanding the Company and its business; personal characteristics, such as integrity and judgment; and candidates commitments to the boards of other companies.

When seeking candidates for Director, the Nominating and Governance Committee may solicit suggestions from incumbent Directors, management, stockholders or others. While the Committee has authority under its charter to retain a search firm for this purpose, no such firm was utilized in 2004. After conducting an initial evaluation of a potential candidate, the Committee will interview that candidate if it believes such candidate might be suitable to be a Director. The Committee may also ask the candidate to meet with management. If the Committee believes a candidate would be a valuable addition to the Board of Directors, it will recommend to the full Board of Directors that candidate s election.

AUDIT COMMITTEE REPORT

The Audit Committee includes three directors who are independent, as defined by the standards of the Nasdaq Stock Market. The Audit Committee assists the Board in overseeing matters relating to the Company s accounting and financial reporting practices, the adequacy of its internal controls and the quality and integrity of its financial statements. On March 24, 2004, the Audit Committee adopted, and the Board of Directors ratified, a new Audit Committee Charter, a copy of which was filed in the proxy statement for the 2004 annual meeting of stockholders.

The Audit Committee met four times during the year ended December 31, 2004. The Audit Committee reviewed with management and the independent auditors the interim financial information included in the Company s quarterly reports on Form 10-Q for the fiscal quarters ended March 31, June 30 and September 30, 2004 prior to their being filed with the Commission and reviewed in a meeting held in 2005 the financial information for the fiscal quarter and year ended December 31, 2004, as filed with the Company s Form 10-K for the year ended December 31, 2004.

The independent auditors provided the Audit Committee with a written statement describing all the relationships between the Company and its auditors that might bear on the auditors independence consistent with Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees. The Audit Committee also discussed with the auditors any relationships that may impact their objectivity and independence and satisfied itself as to the auditors independence.

The Audit Committee discussed and reviewed with the independent auditors all communications required by generally accepted auditing standards, including those described in Statement of Auditing Standards No. 61, as amended, Communication with Audit Committees.

With and without management present, the Audit Committee discussed and reviewed the results of the independent auditors examination of the Company s December 31, 2004 financial statements. The discussion included matters related to the conduct of the audit, such as the selection of and changes in significant accounting policies, the methods used to account for significant or unusual transactions, the effect of significant accounting policies in controversial or emerging areas, the process used by management in formulating particularly sensitive accounting estimates and the basis for the auditors conclusions regarding the reasonableness of those estimates, significant adjustments arising from the audit and disagreements, if any, with management over the application of accounting principles, the basis for management s accounting estimates and the disclosures in the financial statements.

The Audit Committee reviewed the Company s audited financial statements as of and for the year ended December 31, 2004, and discussed them with management and the independent auditors. Based on such review and discussions, the Audit Committee recommended to the Board that the Company s audited financial statements be included in its Annual Report on Form 10-K for the fiscal year ended December 31, 2004 for filing with the Commission.

This report of the Audit Committee shall not be deemed incorporated by reference by any general statement incorporating by reference this Proxy Statement into any filing under the Securities Act of 1933, as amended (the Securities Act), or the Exchange Act, except to the extent that the Company specifically incorporates this information by reference, and shall not otherwise be deemed filed under such Acts.

Nola Masterson
David Poorvin, Ph.D.
Daniel F. Cain, Chairman

PROPOSAL NUMBER 2:

RATIFICATION AND APPROVAL OF REGISTERED INDEPENDENT PUBLIC ACCOUNTING FIRM

The Board of Directors has appointed the firm of PricewaterhouseCoopers LLP as the Company s registered independent public accounting firm to make an examination of the accounts of the Company for the fiscal year ending December 31, 2005, subject to ratification by the Company s stockholders. The Company anticipates that representatives of PricewaterhouseCoopers LLP will not be present at the Annual Meeting. However, the Company anticipates that representatives of PricewaterhouseCoopers LLP will be available telephonically and will have an opportunity to make a statement, if they desire to do so, and will also be available to respond to appropriate questions from stockholders attending the Annual Meeting.

Fees Paid to Registered Independent Public Accounting Firm

The following table sets forth the aggregate fees billed to the Company by its registered independent public accounting firm, PricewaterhouseCoopers LLP, for fiscal years ended December 31, 2004 and 2003, respectively:

	2004	**2003**
Audit Fees	$ 302,978	$ 127,150
Audit Related Fees	0	70,300
Tax Fees	4,500	9,250
All Other Fees	0	0
Total Fees	$ 307,478	$ 206,700

The services provided under the caption Audit Fees for 2004 and 2003 were for professional services rendered for audits of the Company s financial statements and the Company s self tender offer. $210,178 in services provided under the caption Audit Fees for 2004 relate to accounting consultation services performed in connection with the Company s public offering completed in February 2005 and services related to securities matters. Services provided under the caption Audit Related Fees for 2003 relate to due diligence and accounting consultation services performed in connection with the company s now-terminated transaction with Lavipharm Corporation. The services provided under the caption Tax Fees for 2004 and 2003 relate to certain compliance related services and tax advice to the Company. The Audit Committee considered whether the provision of the services reflected under Tax Fees above might have affected PricewaterhouseCoopers independence with respect to their audit of the Company s financial statements, and the Audit Committee believes that such services did not affect, and were compatible with, PricewaterhouseCoopers independence.

Audit Committee Pre-Approval Policies and Procedures

The Audit Committee s policy provides that the Company s independent registered public accounting firm (the Audit Firm) may provide only those services pre-approved by the Audit Committee or its designated subcommittee. The Audit Committee annually reviews and pre-approves the audit, review, attest and permitted non-audit services to be provided during the next audit cycle by the Audit Firm. To the extent practical, at the same meeting the Audit Committee also reviews and approves a budget for each of such services. The term of any such pre-approval is for the period of the annual audit cycle, unless the Audit Committee specifically provides for a different period.

Services proposed to be provided by the Audit Firm that have not been pre-approved during the annual review and the fees for such proposed services must be pre-approved by the Audit Committee or its designated subcommittee. Additionally, fees for previously approved services that are expected to exceed the previously approved budget must also be pre-approved by the Audit Committee or its designated subcommittee.

All requests or applications for the Audit Firm to provide services to the Company must be submitted to the Audit Committee or its designated subcommittee by the Audit Firm and the Chief Financial Officer and must include a joint statement as to whether, in their view, the request or application is consistent with applicable laws, rules and regulations relating to auditor independence. It is the Company s policy that if any of its employees or any representative of the Audit Firm becomes aware that any services are being, or have been, provided by the Audit Firm to the Company without the requisite pre-approval, such individual must immediately notify the Chief Financial Officer, who must promptly notify the Chairman of the Audit Committee and appropriate members of senior management so that prompt action may be taken to the extent deemed necessary or advisable.

The Audit Committee may form and delegate to a subcommittee composed of one or more of its members, the authority to grant specific pre-approvals under its policy with respect to audit, review, attest and permitted non-audit services, provided that any such grant of pre-approval shall be reported to the full Audit Committee no later than its next scheduled meeting. The Audit Committee may not delegate to management its responsibilities to pre-approve services performed by the Audit Firm.

The Board of Directors recommends that stockholders vote FOR ratification and approval of the appointment of PricewaterhouseCoopers LLP as the Company s registered independent public accounting firm for the fiscal year ended December 31, 2005, and Proxies executed and returned will be so voted unless contrary instructions are indicated thereon.

COMPENSATION AND OPTION COMMITTEE OF THE BOARD OF DIRECTORS REPORT

The Compensation and Option Committee (the Committee) of the Board of Directors of the Company currently consists of Ms. Masterson and Dr. Poorvin who were both elected to the Committee on September 29, 2004 and neither of whom is an officer or employee of the Company. The Committee is responsible for evaluating the performance of management and determining the compensation for executive officers of the Company and for administering the Company s Incentive Plans under which grants may be made to employees of the Company. The Committee has furnished the following report on executive compensation for 2004:

Under the supervision of the Committee, the Company has developed a compensation policy which is designed to attract and retain key executives responsible for the success of the Company and motivate management to enhance long-term stockholder value. The annual compensation package for executive officers primarily consists of (i) a cash salary which reflects the responsibilities relating to the position and individual performance, (ii) variable performance awards payable in cash or stock and tied to the achievement of certain personal and corporate goals or milestones and (iii) long-term stock-based incentive awards which strengthen the mutuality of interests between the executive officers and the Company s stockholders.

In determining the level and composition of compensation of each of the Company s executive officers, the Committee takes into account various qualitative and quantitative indicators of corporate and individual performance.

Although no specific target has been established, the Committee generally seeks to set salaries comparable to those of peer group companies. In setting such salaries, the Committee considers its peer group to be certain companies in the biotechnology industries with market capitalizations similar to that of the Company. Such competitive group does not necessarily include the companies comprising the indexes reflected in the performance graph in this Proxy Statement. Because the Company is still developing technologies, the use of certain traditional performance standards (e.g., profitability and return on equity) is not currently appropriate in evaluating the performance of the Company s executive officers. Consequently, in evaluating the performance of management, the Committee takes into consideration such factors as the Company s achieving specified milestones or goals in its clinical development programs and the general progress of the Company s clinical trials. In addition, the Committee recognizes performance and achievements that are more difficult to quantify, such as the successful supervision of major corporate projects and demonstrated leadership ability.

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Base compensation is established through negotiation between the Company and the executive officer at the time the executive is hired, and then subsequently adjusted when such officer s base compensation is subject to review or reconsideration. While the Company has entered into employment agreements with certain of its executive officers, such agreements provide that base salaries will be determined by the Committee after review. When establishing or reviewing base compensation levels for each executive officer, the Committee, in accordance with its general compensation policy, considers numerous factors, including the responsibilities relating to the position, the qualifications of the executive and the relevant experience the individual brings to the Company, strategic goals for which the executive has responsibility, and compensation levels of companies at a comparable stage of development who compete with the Company for business, scientific and executive talents. As stated above, such comparable companies are generally those with similar market capitalizations and are not necessarily among the companies comprising the industry or broad market indexes reflected in the performance graph in this Proxy Statement. No pre-determined weights are given to any one of such factors. The base salaries for the executive officers generally, and the Chief Executive Officer specifically, for fiscal 2004 were comparable to the Company s peer group companies.

In addition to each executive officer s base compensation, the Committee may award cash bonuses and may grant awards under the Company s Incentive Plan to chosen executive officers depending on the extent to which certain defined personal and corporate performance goals are achieved. Such corporate performance goals are the same as discussed above.

All employees of the Company, including its executive officers, are eligible to receive long-term stock-based incentive awards under the Company s Incentive Plan as a means of providing such individuals with a continuing proprietary interest in the Company. Such grants further the mutuality of interest between the Company s employees and its stockholders by providing significant incentives for such employees to achieve and maintain high levels of performance. The Company s Incentive Plan enhances the Company s ability to attract and retain the services of qualified individuals. Factors considered in determining whether such awards are granted to an executive officer of the Company include the executive s position in the Company, his or her performance and responsibilities, the amount of stock options, if any, currently held by the officer, the vesting schedules of any such options and the executive officer s other compensation. While the Committee does not adhere to any firmly established formulas or schedules for the issuance of awards such as options or restricted stock, the Committee will generally tailor the terms of any such grant to achieve its goal as a long-term incentive award by providing for a vesting schedule encompassing several years or tying the vesting dates to particular corporate or personal milestones.

Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code), added by the Revenue Reconciliation Act of 1993, places a $1.0 million cap on the deductible compensation that can be paid to certain executives of publicly-traded corporations. Amounts that qualify as performance based compensation under Section 162(m)(4)(c) of the Code are exempt from the cap and do not count toward the $1.0 million limit. Generally, stock options will qualify as performance based compensation. The Committee has discussed and considered and will continue to evaluate the potential impact of Section 162(m) on the Company in making compensation determinations, but has not established a set policy with respect to future compensation determinations.

Compensation of Chief Executive Officer

The annual base salary of Joseph S. Podolski, the Company s President and Chief Executive Officer was increased to $300,000 in 2004 from its 2003 level of $280,000 as a cost of living adjustment. Mr. Podolski did not receive any cash bonus in 2004. Mr. Podolski did receive options to purchase a total of 272,866 shares of the Company s Common Stock in 2004 in connection with Mr. Podolski s leadership in successfully completing the Company s self tender offer in January 2004 and in progressing the development of the Company s two pharmaceutical product candidates. Of such shares, 58,561 shares were subject to a performance option tied to certain performance objectives. As a result, only 46,848 shares underlying such option vested and remain exercisable, and the remaining option to purchase 11,713 shares terminated. The Committee members will continue to use criteria established by the Committee previously in determining Mr. Podolski s compensation in the future as well as other factors and criteria that this Committee determines is appropriate in setting compensation for the Company s Chief Executive Officer.

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The foregoing report is given by the following members of the Committee:

Nola Masterson
David Poorvin, Ph.D.

The report of the Committee shall not be deemed incorporated by reference by any general statement incorporating by reference this Proxy Statement into any filing under the Securities Act, or the Exchange Act, except to the extent that the Company specifically incorporates this information by reference, and shall not otherwise be deemed filed under such Acts.

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EXECUTIVE COMPENSATION

Executive Officers

Set forth below is certain information concerning the executive officers of the Company, including the business experience of each during the past 5 years.

Name	Age	Position
Joseph S. Podolski	57	President, Chief Executive Officer, and Director
Louis Ploth, Jr.	51	Vice President, Business Development, Chief Financial Officer, Secretary and Director

Information pertaining to Messrs. Podolski and Ploth may be found in the section entitled Proposal Number 1-Election of Directors Nominees for Election as Directors.

Compensation of Executive Officers

Summary Compensation Table

The following table provides certain summary information concerning compensation paid or accrued during the last three years to the Company s President and Chief Executive Officer and to the Company s other executive officer who had compensation in excess of $100,000 during the last fiscal year (the Named Executive Officers):

				Long-Term Compensation		
	Annual Compensation			Restricted Stock	Securities Underlying	All Other
Name and Principal Position	Year	Salary	Bonus	Awards	Options	Compensation[1]
Joseph S. Podolski	2004	$ 298,898			272,866	$ 6,000[2]
President and Chief Executive	2003	$ 280,000				$ 6,000[2]
Officer	2002	$ 272,708		$ 26,500	275,000	$ 6,000[2]
Louis Ploth, Jr.	2004	$ 187,533			165,383	
Chief Financial Officer, Vice	2003	$ 150,000				
President, Business Development	2002	$ 150,000		$ 26,500		
and Secretary						

(1) During the periods indicated, perquisites for each individual named in the Summary Compensation Table aggregated less than 10% of the total annual salary and bonus reported for such individual in the Summary Compensation Table. Accordingly, no such amounts are included in the Summary Compensation Table.

(2) Represents car allowance.

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Option Grants in 2004

The following table provides certain information with respect to options granted to the President and Chief Executive Officer and the other Named Executive Officer during the fiscal year ended December 31, 2004 under the Company s Incentive Plan:

	Individual Grants					Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term[1]		
Name	Number of Securities Underlying Options Granted[1]	Percent of Total Options Granted to Employees in Fiscal Year	Exercise Price	Market Price on Date of Grant	Expiration Date	0%	5%	10%
Joseph S. Podolski	272,866[2]	45.4%	$2.72	$2.72	3/29/2014		$466,763	$1,182,869
Louis Ploth, Jr.	165,383[2]	27.5%	$2.72	$2.72	3/29/2014		$282,903	$ 716,932

(1) The Securities and Exchange Commission (the SEC) requires disclosure of the potential realizable value or present value of each grant. The disclosure assumes the options will be held for the full 10-year term prior to exercise. Such options may be exercised prior to the end of such 10-year term. The actual value, if any, an executive officer may realize will depend on the excess of the stock price over the exercise price on the date the option is exercised. There can be no assurance that the stock price will appreciate at the rates shown in the table.

(2) Of the total number of shares issuable upon exercise of such options, 58,561 shares issuable upon exercise of Mr. Podolski s options and 20,925 shares issuable upon exercise of Mr. Ploth s options related to performance-based options which were tied to certain milestones and some of these milestones were not achieved. As a result, only 46,848 shares issuable upon exercise of Mr. Podolski s performance-based options and 16,740 shares issuable upon exercise of Mr. Ploth s performance-based options remain outstanding and have vested. Options to purchase 11,713 shares and 4,185 shares for Messrs. Podolski and Ploth, respectively, have terminated as a result.

Option Exercises and Holdings

The following table sets forth information concerning option exercises and the value of unexercised options held by the President and Chief Executive Officer and the other Named Executive Officer of the Company named in the Summary Compensation Table as of the end of the last fiscal year:

AGGREGATED OPTION EXERCISES IN 2004
AND OPTION VALUES AT DECEMBER 31, 2004

Name	Shares Acquired on Exercise (#)	Value Realized ($)	Number of Securities Underlying Unexercised Options Held at December 31, 2004		Value of Unexercised In-The-Money Options Held at December 31, 2004(1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Joseph S. Podolski			233,575	474,291	$ 152,676	$ 364,859
Louis Ploth, Jr.			150,814	141,269	$ 132,475	$ 225,723

(1) Computed based on the difference between aggregate fair market value and aggregate exercise price. The fair market value of the Company s Common Stock on December 31, 2004 was $4.33, based on the closing sales price on the Nasdaq Stock Market on December 31, 2004.

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Equity Compensation Plan Information

The following table provides information as of December 31, 2004, regarding compensation plans (including individual compensation arrangements) under which equity securities are authorized for issuance:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities shown in the first column)	&n