PSYCHEMEDICS CORP
Form DEF 14A
April 06, 2007

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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 o

FILED BY A PARTY OTHER THAN THE REGISTRANT o

Check the appropriate box:

o Preliminary Proxy Statement
þ Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to sec.240.14a-11(c) or sec.240.14a-12
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Psychemedics Corporation

(Name of Registrant as Specified In Its Charter)

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Psychemedics

C O R P O R A T I O N

BOSTON LOS ANGELES CHICAGO
DALLAS ATLANTA

April 3, 2007

Dear Stockholders:

We cordially invite you to attend the Annual Meeting of Stockholders, which will be held at the Seaport Hotel, 200 Seaport Boulevard, Boston, MA 02210 on May 10, 2007, at 3:00 P.M.

The notice of the Annual Meeting and the proxy statement on the following pages cover the formal business of the meeting. At the Annual Meeting, stockholders will elect directors for the forthcoming year. I will report on current operations and discuss our plans for growth. We will also have plenty of time for your questions and comments.

I believe that the Annual Meeting provides an excellent opportunity for stockholders to become better acquainted with the Company and its directors and officers. I hope that you will be able to attend.

Sincerely,

Raymond C. Kubacki, Jr.
Chairman, Chief Executive Officer,
and President

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PSYCHEMEDICS CORPORATION
125 Nagog Park
Acton, Massachusetts 01720
NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

April 3, 2007

The Annual Meeting of Stockholders will be held on May 10, 2007 at 3:00 P.M at the Seaport Hotel, 200 Seaport Boulevard, Boston, MA 02210, for the following purposes:

1. To elect directors of the Company for the ensuing year and until their respective successors are chosen and qualified; and

2. To consider and act upon matters incidental to the foregoing and to transact such other business as may properly come before the Annual Meeting.

The Board of Directors has fixed the close of business on March 12, 2007 as the record date for the determination of stockholders entitled to receive notice of, and to vote at, the Annual Meeting of Stockholders.

By order of the Board of Directors,

Edward S. Brewer, Jr.,
Secretary

The Company s Annual Report for 2006 containing a copy of the Company s Form 10-K (excluding exhibits) for the year ended December 31, 2006 is enclosed herewith.

Please fill in, date, sign and mail promptly the accompanying proxy in the return envelope furnished for that purpose, whether or not you plan to attend the Annual Meeting.

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PSYCHEMEDICS CORPORATION
125 Nagog Park
Acton, Massachusetts 01720

PROXY STATEMENT
ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON MAY 10, 2007

This statement is furnished to the stockholders of PSYCHEMEDICS CORPORATION (hereinafter, the Company) in connection with management s solicitation of proxies to be used at the Annual Meeting of Stockholders on May 10, 2007 and at any adjournment of that meeting. The approximate date on which this proxy statement and accompanying proxy are being sent to stockholders of the Company is April 3, 2007. Each proxy delivered pursuant to this solicitation is revocable at the option of the person executing the same by written notice delivered to the Secretary of the Company at any time before the proxy is voted. A stockholder who attends the Annual Meeting in person may revoke his or her proxy at that time and vote his or her shares if such stockholder so desires.

Most stockholders of the Company hold their shares through a stockbroker, bank, trustee or other nominee rather than directly in their own name. As summarized below, there are some distinctions between shares held of record and those owned beneficially.

Stockholders of Record. If your shares are registered directly in your name with the Company s transfer agent, ComputerShare, you are considered the stockholder of record of those shares and these proxy materials are being sent directly to you by the Company. As the stockholder of record, you have the right to grant your voting proxy directly to the Company or to vote in person at the Annual Meeting.

Beneficial Owner. If your shares are held in a stock brokerage account, by a bank, trustee or other nominee, you are considered the beneficial owner of shares held in street name and these proxy materials are being forwarded to you by your broker, trustee or nominee who is considered the stockholder of record of those shares. As the beneficial owner, you have the right to direct your broker, trustee or nominee on how to vote and are also invited to attend the Annual Meeting. However, since you are not the stockholder of record, you may not vote these shares in person at the Annual Meeting. Your broker, trustee or nominee is obligated to provide you with a voting instruction card for you to use.

The presence in person or by proxy of stockholders entitled to cast a majority of the outstanding shares, or 2,592,549 shares, shall constitute a quorum. With respect to the election of Directors, the Company will treat votes withheld as shares that are present for purposes of determining a quorum. A plurality is required to elect Directors, so the four persons receiving the greatest number of votes will be elected. Withheld votes will not affect the outcome of the election. If a broker indicates on a proxy that it does not have discretionary authority as to certain shares to vote on a particular matter, those shares will be considered as present for quorum purposes but not as shares entitled to vote with respect to that matter. Accordingly, broker non-votes will have no effect on such a matter.

All shares represented by a properly executed proxy will be voted unless it is revoked and, if a choice is specified, will be voted in accordance with such specification. If no choice is specified, the proxies will be voted FOR the election of the four nominees named under Election of Directors , unless authority to do so is withheld with respect to one or more of the nominees. In addition, the proxy will be voted in the discretion of the proxy holders with respect to such other business as may properly come before the Annual Meeting.

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As of March 12, 2007, the Company had outstanding 5,185,097 shares of Common Stock. The Common Stock is the only type of security entitled to vote at the Annual Meeting. Each share of Common Stock entitles the holder of record thereof at the close of business on March 12, 2007 to one vote on each of the matters to be voted upon at the Annual Meeting.

ELECTION OF DIRECTORS

At the Annual Meeting, directors are to be elected to hold office for the ensuing year and until their respective successors are chosen and qualified. The Board of Directors has fixed the size of the Board at four and has nominated four persons, all of whom are now directors of the Company, to serve until the next Annual Meeting of Stockholders and until their successors are elected and qualified. If the enclosed proxy is duly executed and received in time for the Annual Meeting, and unless authority to do so is withheld, it will be voted to elect as directors the following nominees: Raymond C. Kubacki, Jr., Harry F. Connick, Walter S. Tomenson and Fred J. Weinert. In the event that any of the nominees becomes unavailable, then the proxy holders shall have the right: (i) to vote for such substitute, if any, as the present Board of Directors may designate; or (ii) to leave a vacancy on the Board.

BUSINESS EXPERIENCE OF NOMINEES AND EXECUTIVE OFFICERS

Following is a list of names, ages and positions with the Company of all nominees for election as directors and all executive officers of the Company.

Name	Age	Position
Raymond C. Kubacki, Jr.	62	Chairman of the Board, Chief Executive Officer, President, Director and Nominee
Harry F. Connick	81	Director and Nominee, Member of Audit, Nominating and Compensation Committees
Walter S. Tomenson	60	Director and Nominee, Member of Audit, Nominating and Compensation Committees
Fred J. Weinert	59	Director and Nominee, Member of Audit, Nominating and Compensation Committees
William R. Thistle	57	Senior Vice President, General Counsel
Michael I. Schaffer, Ph.D.	62	Vice President, Laboratory Operations

All directors hold office until the next Annual Meeting of Stockholders or until their successors are elected. Officers serve at the discretion of the Board of Directors.

Mr. Kubacki has been the Company s President and Chief Executive Officer and has served as a director of the Company since 1991. He has also served as Chairman of the Board since 2003. He is a

Director of Integrated Alarm Services Group Inc. He is also a trustee of the Center for Excellence in Education based in Washington, DC.

Mr. Connick served as District Attorney for Orleans Parish (New Orleans, LA) from 1974 to 2003. In 2002, Mr. Connick received from Drug Czar John P. Walters the Director s Award for Distinguished Service in recognition of exemplary accomplishment and distinguished service in the fight against illegal drugs. Mr. Connick has been a director of the Company since 2003.

Mr. Tomenson is a Senior Advisor to Integro Ltd. From 1998 until 2004 he served as Managing Director and Chairman of Client Development of Marsh, Inc. From January 1, 2005 until March 31, 2005 he served as a consultant to Marsh, Inc. From 1993 to 1998, he was Chairman of FINPRO, the financial services division of Marsh, Inc. He is a director of the Trinity College School Fund, Inc. He also serves on the Executive Council of the Inner-City Scholarship Fund. Mr. Tomenson has been a director of the Company since 1999.

Mr. Weinert is an entrepreneur whose current business activities are concentrated in real estate development, theatre and film development. He is the Chairman and Chief Executive Officer of Bella Media Plc. He is also the Chief Executive Officer of Barrington Services Group, Inc., Bella Cinema LLC, and San Telmo Inc. He has served on the Business Advisory Council for the University of Dayton for over 20 years. Mr. Weinert has been a director of the Company since 1991.

Mr. Thistle has been a Senior Vice President of the Company since 2001 and General Counsel of the Company since 1995. He was a Vice President of the Company from 1995 to 2001. From 1993 to 1995, he served as Associate General Counsel for MGM Grand in Las Vegas. Mr. Thistle is a board member of the Drug and Alcohol Testing Industry Association.

Dr. Schaffer has served as Vice President of Laboratory Operations since 1999. Prior to joining the Company, he served as Director of Toxicology, Technical Manager and Responsible Person for the Leesburg, Florida laboratory of SmithKline Beecham Clinical Laboratories, from 1990 to 1999. Dr. Schaffer has been an inspector for the Substance Abuse and Mental Health Services Administration s National Laboratory Certification Program since 1989. Dr. Schaffer was also a member of the Board of Directors of the American Board of Forensic Toxicologists from 1990 to 1999.

CORPORATE GOVERNANCE

General

The Company believes that good corporate governance is important to ensure that the Company is managed for the long-term benefit of its stockholders. Over the past few years, the Company has undertaken a comprehensive review of its corporate governance policies and practices in light of the requirements imposed by the Sarbanes-Oxley Act of 2002, Securities and Exchange Commission rules and listing standards imposed by the American Stock Exchange. As part of this review, the Board of Directors has adopted a new charter for the Audit Committee, established a Nominating Committee, adopted a charter for the Nominating Committee and adopted a comprehensive Code of Ethics and Conduct. You may obtain a copy of the Company s current committee charters and Code of Ethics and Conduct by writing to the Company at Investor Relations, Psychemedics Corporation, 125 Nagog Park, Acton, Massachusetts 01720. The Nominating Committee Charter is also posted on the Company s web site at www.psychemedics.com.

Independence

Under the rules of the American Stock Exchange, a majority of the directors and all of the members of the Audit Committee must qualify as independent directors. The Board of Directors of the Company conducts an annual review of the independence of the members of the Board and its committees. Three of our 4 directors are nonemployee directors (all except Mr. Kubacki). Although the

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Board has not adopted categorical standards of materiality for independence purposes (other than those set forth in the American Stock Exchange listing standards), information provided by the directors and the Company did not indicate any relationships (e.g., commercial, industrial, banking, consulting, legal, accounting, charitable, or familial), which would impair the independence of any of the nonemployee directors.

Certain Relationships and Related Transactions

The Board of Directors has a adopted a policy whereby the Company s Audit Committee is responsible for reviewing any proposed related party transaction. The types of transactions covered by the policy include payments for products or services to or indebtedness to or from, related parties, as defined in Item 404(b) of Regulation S-K under the federal securities laws. The Audit Committee has determined that there were no related party transactions with any related party in fiscal 2006 that would require disclosure under Item 404(a) of Regulation S-K.

Board of Directors Meetings and Committees

The Board of Directors has responsibility for establishing broad corporate policies and reviewing the overall performance rather than day-to-day operations. The Board s primary responsibility is to oversee the management of the Company and, in so doing, serve the best interests of the Company and its stockholders. The Board selects, evaluates and provides for the succession of executive officers and, subject to stockholder election, directors. It reviews and approves corporate objectives and strategies, and evaluates significant policies and proposed major commitments of corporate resources. It participates in decisions that have a potential major economic impact on the Company. Management keeps the directors informed of Company activity through regular reports and presentations at Board and committee meetings.

The Board of Directors met eight times in fiscal year 2006 (including teleconference meetings). In addition, the directors acted by unanimous written consent in lieu of meetings on three occasions during 2006. During fiscal year 2006, each of the directors attended at least 75% of the total number of meetings of the Board of Directors and the committees of which such director was a member. The Board has standing Audit, Compensation and Nominating Committees. The Audit Committee and the Nominating Committee each has a charter that has been approved by the Board. Each committee must review the appropriateness of its charter and perform a self-evaluation at least annually. Mr. Kubacki is the only director who is also an employee of the Company. He does not participate in any meeting at which his compensation is evaluated. All members of all committees are non-employee directors.

The Company encourages all incumbent directors, as well as all nominees for election as director, to attend the Annual Meeting of Stockholders. All of the Company s directors except for Mr. Connick attended the Company s Annual Meeting in May, 2006.

Audit Committee

The Audit Committee, whose members are Messrs. Connick, Tomenson and Weinert, reviews the appropriateness, quality and acceptability of the Company s accounting policies and the integrity of financial statements reported to the public, and compliance with legal and regulatory requirements. The Board has determined that each member of the Audit Committee satisfies the requirements of the American Stock Exchange regarding competency in financial matters. In addition, the Board of Directors has determined that Mr. Weinert, the Chairman of the Audit Committee, qualifies as an audit committee financial expert as defined by the Securities and Exchange Commission rules. None of Messrs. Connick, Tomenson or Weinert serves on the audit committees of any other public company. The responsibilities of the Audit Committee and its activities during fiscal year 2006 are described in the Report of the Audit Committee set forth below in this proxy statement.

Compensation Committee

The Compensation Committee, whose members are Messrs. Connick, Tomenson and Weinert, held two meetings during 2006. The Compensation Committee does not have a charter. The responsibilities of the Compensation Committee and its activities during fiscal year 2006 are described below under the caption Compensation Discussion and Analysis .

Compensation Committee Interlocks and Insider Participation

None of Messrs. Connick, Tomenson or Weinert has ever been an officer or employee of the Company or any subsidiary of the Company and no executive officer of the Company serves on the board of directors of any company at which any of the Compensation Committee members is employed.

Nominating Committee

The Nominating Committee, whose members are Messrs. Connick, Tomenson and Weinert, held two meetings during 2006. The Nominating Committee is charged with identifying and screening candidates, consistent with criteria approved by the Board of Directors, and making recommendations to the Board of Directors as to persons to be nominated by the Board of Directors for election thereto by the stockholders or to be chosen by the Board of Directors to fill newly created directorships or vacancies on the Board of Directors. The Board of Directors has determined that each of the members of the Nominating Committee is independent as defined in the American Stock Exchange s listing standards.

The Nominating Committee identifies Board candidates through numerous sources, including recommendations from Directors, executive officers and stockholders of the Company. The Nominating Committee evaluates identified Board candidates based on the criteria established by and periodically reviewed by the Nominating Committee. The Nominating Committee seeks to identify those individuals most qualified to serve as Board members and will consider many factors with regard to each candidate, including judgment, integrity, diversity, prior experience, the interplay of the candidate s experience with the experience of other Board members, the extent to which the candidate would be desirable as a member of any committees of the Board, and the candidate s willingness to devote the time and effort required for Board responsibilities. Selected candidates are interviewed by members of the committee and certain other Board members. Based on the foregoing, the Nominating Committee makes recommendations to the Board with respect to director nominees.

The Company s stockholders may recommend individuals to the Nominating Committee for consideration as potential director candidates at the Company s 2008 Annual Meeting by submitting their names and appropriate background and biographical information to the Company s Nominating Committee, Psychemedics Corporation, 125 Nagog Park, Acton, Massachusetts 01720 not later than December 3, 2007. Assuming that the appropriate information has been timely provided, the Nominating Committee will consider these candidates substantially in the same manner as it considers other Board candidates it identifies.

Stockholder Communications

Historically, the Company has not adopted a formal process for stockholder communications with the Board. Nevertheless, every effort has been made to ensure that the Board or individual directors, as applicable, hear the views of stockholders and that appropriate responses are provided to stockholders in a timely manner. Any matter intended for the Board, or for any individual member or members of the Board, should be directed to the Secretary of the Company, Psychemedics Corporation, 125 Nagog Park, Acton, Massachusetts 01720, with a request to forward the same to the intended recipient.

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Report of the Audit Committee

The Audit Committee of the Board of Directors is responsible for providing independent, objective oversight of the Company s accounting functions and internal controls. Management has the primary responsibility for the financial statements and the reporting process, including the system of internal controls. The Audit Committee oversees the financial reporting process on behalf of the Board of Directors, reviews financial disclosures, and meets privately, outside the presence of management, with the independent auditors to discuss internal accounting control policies and procedures. In fulfilling its oversight responsibilities, the Audit Committee reviews the audited financial statements in the Annual Report on Form 10-K with management including a discussion of the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments, and the clarity of disclosures in the financial statements. The Audit Committee reports on these meetings to the Board of Directors. The Audit Committee also selects and appoints the independent auditors, reviews the performance of the independent auditors in the annual audit and in assignments unrelated to the audit, and pre-approves the independent auditors services. The Audit Committee operates under a written charter adopted by the Board of Directors, a copy of which can be viewed on the Company s website under Corporate Governance .

The Audit Committee is composed of three non-employee directors, Messrs. Connick, Tomenson and Weinert, each of whom is an independent director under the rules of the American Stock Exchange governing the qualifications of the members of audit committees. The Audit Committee held six meetings during 2006. Mr. Weinert qualifies as an audit committee financial expert under the rules of the Securities and Exchange Commission. In addition, the Board of Directors has determined that each member of the Audit Committee meets the minimum standards regarding competency in financial matters required under the rules of the American Stock Exchange. None of Messrs. Connick, Tomenson and Weinert serves on the audit committees of any other public company.

The Audit Committee reviewed with the independent auditors their judgments as to the quality, not just the acceptability, of accounting principles and such other matters as are required to be discussed with the Audit Committee under the standards of the Public Company Accounting Oversight Board (United States). In addition, the Audit Committee has discussed with the independent auditors (i) the matters required to be discussed under Codification of Statements on Auditing Standards, AU§380, and (ii) the auditors independence from the Company and its management, including the matters in the written disclosures we received from the auditors as required by Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees . The Audit Committee concluded that BDO Seidman, LLP s provision of audit and non-audit services to the Company is compatible with BDO Seidman, LLP s independence. Based on its review and discussions, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

Members of the Audit Committee:

Harry F. Connick
Walter S. Tomenson
Fred J. Weinert

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Independent Auditors Fees and Other Matters

The following table presents fees for audit services rendered by the Company s independent auditors for the audit of the Company s annual financial statements for the years ended December 31, 2006 and 2005, and fees billed for other services during those periods.

	Fiscal Year 2006	Fiscal Year 2005
Audit Fees [1]	$ 131,500	$ 116,500
Audit-Related Fees [2]	11,000	8,200
Tax Fees [3]	25,000	31,200
All Other Fees [4]	0	2,000
Total	$ 167,500	$ 157,900

(1) Audit Fees Fees for professional services rendered to the Company (or estimates of fees for services to be rendered) in connection with auditing the Company s annual financial statements and reviewing the interim financial information included in the Company s Quarterly Reports on Form 10-Q, and consents and assistance with the review of documents filed with the Securities and Exchange Commission.

(2)

Audit-Related Fees Fees billed to the Company for services related to the audit of the Company s financial statements, that are not reported under Audit Fees, which include due diligence assistance in connection with accounting consultations and audit work performed on certain of the Company s benefit plans.

(3) Tax Fees Fees billed to the Company related to tax compliance and consultation.

(4) All other Fees Fees billed to the Company for other permissible services that do not fit within the aforementioned categories.

Audit Committee Pre-Approval Policy of Audit and Permissible Non-Audit Services of Independent Auditors

The Audit Committee s policy is to pre-approve all audit and permissible non-audit services provided by the independent auditors. These services may include audit services, audit-related services, tax services and other services. Any pre-approval is detailed as to the particular service or category of services and is generally subject to a specific budget. The Audit Committee may delegate pre-approval authority to one or more of its members when expedition of services is necessary. The independent auditors and management are required to periodically report to the full Audit Committee regarding the extent of services provided by the independent auditors, in accordance with this pre-approval policy, and the fees for the services performed to date.

Director Compensation

Mr. Kubacki receives no additional compensation for serving on the Company s Board of Directors. Each of the Company s outside (non-employee) directors receives cash compensation of $30,000 per year, or $7,500 per quarter. In addition, Mr. Weinert, the Chairman of the Audit Committee, receives additional cash compensation of $7,500 per year ($1,875 per quarter).

On May 11, 2006, Messrs. Connick, Tomenson and Weinert, who constituted the Company s outside directors, were each issued 1,300 stock unit awards, each such stock unit award representing the right to receive one share of Common Stock of the Company. The stock unit awards were granted under the Company s 2006 Equity Incentive Plan. Each such award vests with respect to 50% of the shares covered thereby on April 30, 2007 and with respect to the balance of the shares on April 30, 2008, in each case, so long as the recipient remains in continuous service as a member of the Board of Directors of the Company through each such vesting date. Any unvested stock unit awards terminate upon the cessation of a recipient s service as a member of the Board of Directors, subject to partial vesting in the case of termination on account of death or permanent disability. In the event of a change in control of the Company (as defined in the restricted stock agreement evidencing the award) the share unit awards become fully vested immediately prior to the effective date of such change in control.

The following table shows, for the fiscal year ended December 31, 2006, the compensation paid by the Company or accrued for such year, to the Company s non-employee directors. The compensation paid to Mr. Kubacki for his service as Chairman, Chief Executive Officer and President, is reported in the Summary Compensation Table under the caption Executive Compensation below.

Director Compensation For Fiscal Year Ended December 31, 2006

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)(1)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Non-qualified Deferred Compensation Earnings ($)	All other Compensation ($)	Total ($)
Harry Connick	30,000	6,927(2)			N/A	(3)	36,927
Walter Tomenson	30,000	6,927(2)			N/A	(3)	36,927
Fred J. Weinert	37,500	6,927(2)			N/A	(3)	44,427

(1) The amounts in column (c) reflect the dollar amount recognized for financial statement reporting purposes for the fiscal year ended December 31, 2006, in accordance with FAS 123(R) of stock unit awards made in May, 2006 under the Company s 2006 Equity Incentive Plan. Assumptions

used in the calculation of these amounts are included in footnote 4 to the Company s audited financial statements for the fiscal year ended December 31, 2006, included in the Company s Annual Report on Form 10-K filed with the Securities and Exchange Commission on or around March 31, 2007.

(2) The grant date fair value of the award to the named individual was $21,710. None of such award was vested as to any of the shares subject to the award as of December 31, 2006. The portion of the share unit award vested as of the record date for the 2007 Annual Meeting (or within 60 days of such record date) is reflected in the stock ownership table on page 17.

(3) Any perquisites or other

personal benefits received from the Company by the named director were substantially less than the reporting thresholds established by the Securities and Exchange Commission ($10,000).

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Overview of Compensation Program

The Compensation Committee (for purposes of this analysis, the Committee) of the Board has responsibility for establishing, implementing and continually monitoring adherence with the Company s compensation philosophy. The Committee ensures that the total compensation paid to the executive officers is fair, reasonable and competitive.

Throughout this proxy statement, the individuals who served as the Company s Chief Executive Officer and Chief Financial Officer during fiscal 2006, as well as the other individuals included in the Summary Compensation Table on page 12, are referred to as the named executive officers .

Compensation Philosophy and Objectives

The Committee believes that the most effective executive compensation program is one that is designed to reward the achievement of specific annual performance goals by the Company, and which aligns executives interests with those of the stockholders by rewarding performance with the ultimate objective of improving stockholder value. The Committee evaluates both performance and compensation to ensure that the Company maintains its ability to attract and retain superior employees in key positions

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and that compensation provided to key employees remains competitive relative to the compensation paid to similarly situated executives of similarly sized public companies. To that end, the Committee believes executive compensation packages provided by the Company to its executives, including the named executive officers, should include both cash and stock-based compensation that reward performance as measured against established goals.

Role of Executive Officers in Compensation Decisions

The Committee makes all compensation decisions for the Chief Executive Officer, but takes into account his recommendations when making compensation decisions with respect to the other executive officers.

The Chief Executive Officer annually reviews the performance of each other executive officer. The conclusions reached and recommendations based on these reviews, including with respect to salary adjustments and annual award amounts, are presented to the Committee. The Committee can exercise its discretion in modifying any recommended adjustments or awards to executives.

Setting Executive Compensation

Based on the foregoing objectives, the Committee has structured the Company s annual and long-term incentive-based cash and non-cash executive compensation to motivate executives to achieve the business goals set by the Company and reward the executives for achieving such goals.

In making compensation decisions, the Committee compares each element of total compensation against what the Committee believes to be the average amount paid to similarly situated executives at publicly-traded and privately-held companies.

A significant percentage of total compensation is allocated to incentives as a result of the philosophy mentioned above. The Committee determines the appropriate level and mix of incentive compensation. Income from such incentive compensation is realized as a result of the performance of the Company or the individual, depending on the type of award, compared to established goals. Historically, the Committee granted a significant portion of each executive officer s total compensation in the form of stock options. More recently, reflecting in part the recent change in the accounting treatment of option grants, the Company began awarding a significant portion of its total compensation payable to executive officers in the form of cash bonus awards tied to achievement of performance goals and to the award of restricted stock units that would become vested over a period of time.

2006 Executive Compensation Components

For the fiscal year ended December 31, 2006, the principal components of compensation for named executive officers were:

- base salary
- performance-based incentive compensation; and
- long-term equity incentive compensation

Base Salary

The Company provides named executive officers and other employees with base salary to compensate them for services rendered during the fiscal year. Base salary ranges for named executive officers are determined for each executive based on his or her position and responsibility.

During its review of base salaries for executives, the Committee primarily considers:

- internal review of the executive s compensation, both individually and relative to other executive officers; and
- individual performance of the executive

Salary levels are typically considered annually as part of the Company s performance review process as well as upon a promotion or other change in job responsibility. Merit based increases to salaries of executive officers are based on the Committee s assessment of the individual s performance.

Bonus Compensation

In January, 2007, the Committee awarded cash bonuses to the named executive officers based on achievement by the Company of earnings per share targets and based upon achievement by the executive officers of individual performance targets, in each case, during fiscal 2006.

Long-Term Incentive Compensation

Restricted Stock Awards.

In 2006, the Company adopted a new stock based plan called the 2006 Equity Incentive Plan (the Equity Incentive Plan). Under the Equity Incentive Plan, up to 250,000 shares of Common Stock (subject to adjustment in the event of stock splits, stock dividends and other similar events) may be issued. The Equity Incentive Plan is intended to benefit the Company and its subsidiaries through offering certain present and future officers, directors, employees and consultants a favorable opportunity to become holders of stock in the Company over a period of years, thereby giving them a permanent stake in the growth and prosperity of the Company and encouraging the continuance of their services with the Company and/or its subsidiaries through (a) the grant of options which qualify as incentive stock options under Section 422(b) of the Internal Revenue Code of 1986, as amended, (b) the grant of options which do not qualify as incentive stock options (non-qualified stock options), (c) the issuance of restricted stock, (d) the grant of stock bonuses, or (e) the grant or issuance of other stock-based rights, which may include, for example, stock appreciation rights and restricted stock units (all of the foregoing being hereinafter referred to collectively as Awards).

In May, 2006, the Committee granted Awards in the form of restricted stock units to each of the executive officers. Each of the units vests over the four-year period following the date of grant and is convertible into shares of Common Stock of the Company upon vesting. The number of units awarded to each of the executive officers in 2006 and the value of such awards is set forth below in the Grants of Plan Based Awards Table on page 13. In addition, the value of the awards attributable to the vesting period that occurred during 2006 is reflected in the Summary Compensation Table on page 12.

Stock Options

While the Company has in the past granted options to acquire shares of its capital stock, it did not grant any options in 2006.

Retirement and Other Benefits

The Company maintains a 401(k) profit sharing plan for the benefit of all employees who have satisfied minimum age and service requirements. Employees have the opportunity to contribute to the plan on a before tax basis, subject to limits prescribed under the Internal Revenue Code. The Company will match 50% of the first 6% of pay that is contributed to the plan, subject to limits prescribed for highly compensated employees. All employee contributions to the 401(k) plan are fully vested upon contribution. The Company s matching contributions vest ratably over a five year period. The Company does not maintain any separate non-qualified retirement plans.

Perquisites and Other Personal Benefits

Any perquisites or other personal benefits that the Company offers to its executive officers are below the threshold limit ($10,000 per executive, per annum) for reporting under SEC rules.

The Company has entered into Change of Control Severance Agreements with certain key employees, including certain named executive officers. The Change of Control Severance Agreements are designed to promote stability and continuity of senior management. Information regarding applicable payments under such agreements for the named executive officers is provided under the heading Potential Payments Upon Termination or Change in Control on page 14.

Tax and Accounting Implications

Deductibility of Executive Compensation

As part of its role, the Committee reviews and considers the deductibility of executive compensation under Section 162(m) of the Internal Revenue Code, which provides that the Company may not deduct

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compensation of more than $1,000,000 that is paid to certain individuals. The Company believes that all compensation paid to its executive officers is, or will be when paid, fully deductible for federal income tax purposes.

Nonqualified Deferred Compensation

On October 22, 2004, the American Jobs Creation Act of 2004 was signed into law, changing the tax rules applicable to nonqualified deferred compensation arrangements. While the final regulations have not become effective yet, the Company believes it is operating in good faith compliance with the statutory provisions which were effective January 1, 2005.

Accounting for Stock-Based Compensation

Beginning on January 1, 2006, the Company began accounting for stock-based payments including Awards under its Equity Incentive Plan in accordance with the requirements of FASB Statement 123(R).

Compensation Committee Report

The Compensation Committee of the Company has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussions, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement.

THE COMPENSATION
COMMITTEE
Fred J. Weinert
Harry Connick
Walter Tomenson

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Summary of Cash and Certain Other Compensation

The following table shows, for the fiscal year ended December 31, 2006, the total compensation earned by the Company s Chief Executive Officer, and the Company s other executive officers (collectively the named executive officers).

Summary Compensation Table

(a) Name and Principal Position	(b) Year	(c) Salary ($)	(d) Bonus ($)(1)	(e) Stock Awards ($)(2)	(f) Option Awards ($)(3)	(g) Non-Equity Incentive Plan Compensation	(h) Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	(i) All Other Compensation ($)(4)	(j) Total ($)
Raymond C. Kubacki, Jr. Chairman, CEO, & President	2006	333,668	69,000	26,642				6,600	435,910
Peter C. Monson Vice President, Treasurer, and Chief Financial Officer (5)	2006	152,560	31,000	5,328				5,449	194,337
William R. Thistle Senior Vice President and General Council	2006	243,728	50,000	13,320				6,600	313,648
Michael I. Schaffer Vice President Laboratory Operations	2006	199,423	41,000	7,993				4,644	253,060

(1) The amounts in column (d) reflect cash bonus awards made to the executive officers based on achievement of certain

financial and individual objectives, as described in more detail on page 10 under the heading Bonus Compensation .

(2) The amounts in column (e) reflect the dollar amount recognized for financial statement reporting purposes for the fiscal year ended December 31, 2006, in accordance with FAS 123(R) of stock unit awards made in May, 2006 under the Company s 2006 Equity Incentive Plan. Assumptions used in the calculation of these amounts are included in footnote 4 to the Company s audited financial statements for the fiscal year ended December 31, 2006, included in the Company s Annual Report on Form 10-K filed with the

Securities and Exchange Commission on or around March 31, 2007.

(3) The amounts in column (f) reflect the dollar amount recognized for financial statement reporting purposes for the fiscal year ended December 31, 2006, in accordance with FAS 123(R) of stock option awards, to the extent vested in 2006. No stock options were granted to any of the named executive officers in 2006 and no grants of options from prior years to the named executive officers became vested in 2006.

(4) The amount shown in column (i) reflects for each named executive officer matching contributions allocated by the Company to

each of the named executive officers pursuant to the Company s 401(k) Plan (which is more fully described on page 10 under the heading Retirement and Other Benefits); the amount of perquisites attributable to each named executive officer did not exceed $10,000 in 2006.

(5) Effective March 31, 2007, Mr. Monson resigned as the Company s Chief Financial Officer and from all other offices he held with the Company.

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Grants of Plan-Based Awards

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards Thresh-old ($)	Target ($)	Maxi-mum ($)	Estimated Future Payouts Under Equity Incentive Plan Awards Thresh-old (#)(1)	Target (#)	Maxi-mum (#)	All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards ($/Sh)	Grant Date Fair Value of Stock and Option Awards ($)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
Raymond C. Kubacki, Jr.	5/11/2006							10,000			167,000
Peter C. Monson	5/11/2006							2,000			33,400
William R. Thistle	5/11/2006							5,000			83,500
Michael I. Schaffer	5/11/2006							4,000			66,800

(1) The amounts in column (i) reflect the grant of Stock Unit Awards under the Company s 2006 Equity Incentive Plan. The Units vest with respect to 25% of the shares covered thereby on the first anniversary date of the date of grant, and with respect to an additional 25% of the shares covered thereby

on each of the three anniversary dates thereafter.

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Outstanding Equity Awards at Fiscal Year-End

	Option Awards					Stock Awards			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercis-able	Equity Incentive Plan Awards: Number of Securities Underlying Unexer-cised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Raymond C.	77,300			$14.40	05/24/2015	10,000	192,500		
Kubacki, Jr.	10,000			$11.85	05/13/2014				
	8,751			$13.68	05/09/2012				
	18,751			$18.00	05/06/2009				
	17,500			$20.24	05/04/2008				
Peter C. Monson	17,100			$14.40	05/24/2015	2,000	38,500		
	3,000			$11.85	05/13/2014				
	2,500			$13.68	05/09/2012				
	6,250			$19.76	05/11/2010				
	6,250			$18.00	05/06/2009				
	2,500			$22.36	03/30/2008				
William R. Thistle	40,600			$14.40	05/24/2015	5,000	96,250		
	5,000			$11.85	05/13/2014				
	12,500			$13.68	05/08/2012				
	8,750			$19.76	05/11/2010				
	7,500			$18.00	05/06/2009				
	3,750			$20.24	05/04/2008				
Michael I. Schaffer	16,600			$14.40	05/24/2015	4,000	77,000		
	3,000			$11.85	05/13/2014				
	2,500			$13.68	05/09/2012				
	6,250			$19.76	05/11/2010				
	2,500			$18.00	05/06/2009				
	8,750			$17.36	04/21/2009				

None of the Company s named executive officers exercised any stock options during 2006 or became vested in any restricted stock units in 2006.

Potential Payments Upon Termination or Change in Control

The Company has entered into change-in-control severance agreements with Messrs. Kubacki, Thistle and Monson providing for severance benefits for a period of up to 12 months in the event of termination within 12 months following a change in control (as defined in the agreements). The agreements provide for severance benefits only if (1) the Company undergoes a change in control (as defined in the agreement) and (2) within 12 months thereafter either (a) the Company (or its successor) terminates the employee (other than termination for cause), or (b) the employee terminates his employment for good reason (as defined in his agreement). The agreements do not provide for severance benefits in the event of an employee s death or disability, or in the event of his voluntary termination without good reason, or on account of termination for any reason if not preceded within 12 months by a change in control. The agreements provide that the employee shall not compete with the Company during the period in which he is entitled to receive severance payments. Except for such

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change-in-control severance agreements, and except as provided below with respect to Mr. Monson, none of Messrs. Kubacki, Thistle or Monson has an employment agreement with the Company.

On May 11, 2006, each of the named executive officers entered into share unit award agreements pursuant to which each such executive officer was issued the share unit awards described above in the Grants of Plan-Based Awards table. Each share unit award agreement provides that the vesting accelerates upon a change in control.

In the event the Company had incurred a change in control on December 31, 2006 and terminated the employment of all of the named executive officers on such date, the amounts paid out to the named executive officers would have been as follows:

Change in Control Termination Payments

(a) Name	(b) Salary and Bonus Continuation ($)(1)	(c) Accrued Vacation ($)	(d) Health Benefits ($)(2)	(e) Acceleration Of Equity Awards ($)(3)	(f) Total ($)
Raymond C. Kubacki, Jr.					
12 month Change in Control Termination Payments (4)	402,668	39,809	21,738	192,500	656,715
6 month Change in Control Termination Payments (change of location only) (4)	201,334	39,809	10,869	192,500	444,512
Peter C. Monson					
6 month Change in Control Termination Payments (5)	93,000	14,904	10,869	38,500	157,273
William R. Thistle					
12 month Change in Control Termination Payments (6)	293,728	40,212	21,738	96,250	451,928
Michael I. Schaffer					
Acceleration benefits only (7)				77,000	77,000

(1) The amounts in column (b) reflect the total amount of Base Salary and Bonus compensation that would continue to be paid to the Executive during the indicated period following a termination in connection with a

change-in-control. Such amounts are calculated based on the actual base salary and bonus compensation earned or paid during the prior 6 or 12 month period preceding such termination.

(2) The amounts in column (d) represent the amount payable by the Corporation during the applicable period for continuation of health benefits

(3) The amounts in column (e) reflect the acceleration of the vesting under stock unit awards granted under the Company s 2006 Equity Incentive Plan as provided in each executive officer s respective Share Unit Award Agreement with the Company. The valuation is determined by multiplying the number of stock unit awards that would have become vested on December 31, 2006 pursuant to such acceleration provision, times the closing price of the Company stock on such date ($19.25 per share).

(4) Mr. Kubacki s arrangement provides for 12 months of salary and bonus continuation in the event of a termination by the

Company without cause (as defined in his agreement) or a termination by him for good reason (as defined in his agreement) in either case, within a 12 month period following a change in control of the Company (as such term is defined in the agreement), provided, however, that in the event of termination by Mr. Kubacki for good reason solely on account of a change in his required place of employment, following a change in control, then in lieu of 12 months of salary and bonus compensation, his benefits would be limited to 6 months of salary and bonus compensation.

(5) Mr. Monson s change-in-control severance agreement provided for 6 months of salary and bonus continuation in the event of a termination by the Company without cause (as defined

in his agreement) or a termination by him for good reason (as defined in his agreement) in either case, within a 6 month period following a change in control of the Company (as such term was defined in the agreement). In February, 2007, in connection with Mr. Monson s agreement to resign as Chief Financial Officer of the Company, the Company entered into a separation agreement with Mr. Monson providing for severance benefits to Mr. Monson in the aggregate amount of $41,730, payable over the 14-week period following his termination, plus continuation of health benefits until September 30, 2007. The severance provisions of his earlier change-in-control severance agreement described above no longer apply.

(6) Mr. Thistle s arrangement provides for 12 months of

salary and bonus continuation in the event of a termination by the Company without cause (as defined in his agreement) or a termination by him for good reason (as defined in his agreement) in either case, within a 12 month period following a change in control of the Company (as such term is defined in the agreement).

(7) Mr. Schaffer did not enter into a change in control severance agreement with the Company. The benefits reflected in the table are derived from his grant of stock unit awards under the Company s 2006 Equity Incentive Plan.

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PRINCIPAL STOCKHOLDERS AND STOCKHOLDINGS OF MANAGEMENT

The following table shows, as of March 12, 2007, the number of shares beneficially owned (i) by those stockholders who are known to the Company to own beneficially more than five percent of the outstanding Common Stock of the Company, (including their addresses) (ii) by each director and nominee for director of the Company, (iii) by each named executive officer, and (iv) by all directors and executive officers as a group.

Name	Amount and Nature of Beneficial Ownership(1)	Percentage Owned(2)
Cortina Asset Management, LLC 330 East Kilbourn Avenue Suite 850 Milwaukee, WI 53202	633,028(3)	12.2%
H. Wayne Huizenga 450 E. Las Olas Blvd. Suite 1500 Fort Lauderdale, FL 33301	589,135(4)	11.3%
Ashford Capital Management, Inc. P.O. Box 4172 Wilmington, DE 19807	339,700(5)	6.5%
Raymond C. Kubacki, Jr.	200,065(6)(7)	3.8%
Fred J. Weinert	161,832(6)(7)(8)	3.1%
William R. Thistle	79,350(6)(7)	1.5%
Walter S. Tomenson	43,188(6)(7)	*
Michael I. Schaffer	40,350(6)(7)	*
Peter C. Monson	25,250(6)(7)	*
Harry F. Connick	17,388(6)(7)	*
All Executive Officers and Directors as a group (6 persons)	567,423(9)	10.2%

* denotes ownership of less than 1%

(1) Shares are considered beneficially owned, for the purpose of this

table only, if held by the person indicated as beneficial owner, or if such person, directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise has or shares the power to vote, to direct the voting of and/or to dispose of or to direct the disposition of such security, or if the person has the right to acquire beneficial ownership within sixty (60) days, unless otherwise indicated in these footnotes.

(2) Pursuant to the rules of the Securities and Exchange Commission, shares of Common Stock which an individual or group has a right to acquire within 60 days pursuant to the exercise of options or warrants or pursuant to the vesting of other

share-based awards are deemed to be outstanding for the purpose of computing the percentage ownership of such individual or group, but with respect to options and warrants, are not deemed outstanding for the purpose of computing the percentage ownership of any other person shown in this table.

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(3) Based on the statement on Schedule 13G/A dated February 14, 2007 and delivered to the Company on March 16, 2007, Cortina Asset Management, LLC, a registered investment adviser, has sole voting power over 446,162 shares of Common Stock and sole dispositive power over 633,028 shares of Common Stock.

(4) Includes: (i) 395,866 shares held by a limited partnership controlled by said individual and (ii) 2,035 shares owned by said individual s spouse.

(5) Based on the statement on Schedule 13G/A filed with the Securities and Exchange Commission on February 13, 2007, Ashford Capital Management,

Inc., a registered investment adviser, has sole voting and dispositive power over 339,700 shares of Common Stock.

(6) Includes the following number of shares of Common Stock which the individual had a right to acquire within 60 days pursuant to the exercise of options: Mr. Kubacki 132,302; Mr. Weinert 55,650; Mr. Thistle 78,100; Mr. Tomenson 42,538; Dr. Schaffer 39,600; Mr. Connick 16,738; and Mr. Monson 24,750.

(7) Includes the following number of shares of Common Stock which the individual had the right to receive within 60 days pursuant to the vesting of share unit awards: Mr. Kubacki 2,500; Mr. Weinert 650;

Mr. Thistle 1,250; Mr. Tomenson 650; Dr. Schaffer 750; Mr. Connick 650; and Mr. Monson 500.

(8) Includes 84,682 shares held by Mr. Weinert as trustee under the Fred J. Weinert, Jr. Revocable Insurance Trust u/t/a dated May 17, 1982.

(9) Includes 389,678 shares which the executive officers and directors had the right to acquire within 60 days pursuant to the exercise of options, and 6,950 shares which were issuable to the executive officers and directors within 60 days pursuant to the vesting of share unit awards.

Section 16(a) Beneficial Ownership Reporting Compliance

Based solely on its review of copies of reports filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, as amended (the Exchange Act), or written representations from persons required to file such reports (Reporting Persons), except as described below, the Company believes that all such filings required to be made by such Reporting Persons with respect to fiscal year 2006 were timely made in accordance with the requirements of the Exchange Act.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Company s Audit Committee has approved BDO Seidman, LLP as the Company s independent registered public accounting firm for fiscal year 2007. Notwithstanding such approval, the Audit Committee in its discretion may direct the appointment of a different firm at any time during the year if it determines that such a change would be in the best interests of the Company and its stockholders. Representatives of BDO Seidman, LLP will be available at the Annual Meeting to respond to questions.

STOCKHOLDER PROPOSALS

Proposals of stockholders intended to be presented at the 2008 Annual Meeting of Stockholders must comply with Rule 14a-8 of the Securities and Exchange Commission issued under the Securities Exchange Act of 1934, and must be received at the principal executive offices of the Company not later than December 3, 2007.

OTHER MATTERS

The Board of Directors knows of no other matters which may come before the Annual Meeting. However, if any matter not now known is presented at the Annual Meeting, it is the intention of the persons named in the accompanying form of proxy to vote said proxy in accordance with their judgment on such matter.

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The Company will bear the cost of solicitation of proxies. Solicitations of proxies by mail may be followed by telephone or other personal solicitation of certain stockholders by officers or other employees of the Company.

By order of the Board of Directors,

EDWARD S. BREWER, JR.,
Secretary

April 3, 2007

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PSYCHEMEDICS
CORPORATION
[CARD]
o Mark box with an X if you have made changes to your name or address details above

Annual Meeting Proxy Card

(A) Election of Directors

The Board of Directors recommends a vote FOR the listed nominees.

(01) Raymond C. Kubacki, Jr.	o For	o Withhold
(02) Harry F. Connick	o For	o Withhold
(03) Walter S. Tomenson, Jr.	o For	o Withhold
(04) Fred J. Weinert	o For	o Withhold

(B) Mark box at right if a comment has been noted below. / /

DO YOU HAVE ANY COMMENTS?

(C) Authorized Signatures Sign Here This section must be completed for your instructions to be executed.

Please sign this proxy exactly as your name appears on the books of the Company. Joint owners should each sign personally. Trustees and other fiduciaries should indicate the capacity in which they sign, and where more than one name appears, a majority must sign. If the shareholder is a corporation, the signature should be that of an authorized officer who should state his or her title.

Signature 1: Signature 2: Date:

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Dear Stockholder:
Please take note of the important information enclosed with this Proxy Ballot.
Your vote counts, and you are strongly encouraged to exercise your right to vote your shares.
Please mark the boxes on the proxy card to indicate how your shares will be voted. Then sign the card and return your proxy in the enclosed postage paid envelope.
Your vote must be received prior to the Annual Meeting of Stockholders, May 10, 2007.
Thank you in advance for your prompt consideration of these matters.
Sincerely,
Psychemedics Corporation

Proxy Psychemedics Corporation

PROXY FOR 2007 ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON MAY 10, 2007
THIS PROXY IS SOLICITED BY THE BOARD OF DIRECTORS
The undersigned hereby appoints Raymond C. Kubacki, Jr. attorney of the undersigned (with full power of substitution), to vote for and in the name of the undersigned, at the 2007 Annual Meeting of Stockholders of Psychemedics Corporation (the Company) to be held on Thursday, May 10, 2007 at 3:00 p.m. at the Seaport Hotel, 200 Seaport Boulevard, Boston, MA 02210 and any adjournments thereof, according to the number of shares and as fully as the undersigned would be entitled to vote if personally present.
Without limiting the general authorization hereby given, said proxy is instructed to vote or act as follows on the proposal set forth in the Company s Proxy Statement dated April 3, 2007 and on such other matters as may properly come before the meeting.
This proxy, when properly executed, will be voted in the manner directed by the undersigned stockholder. If no direction is made, this proxy will be voted FOR each of the nominees listed on proposal A set forth on the reverse side.
PLEASE VOTE, DATE, AND SIGN ON REVERSE SIDE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE.