LIQUIDITY SERVICES INC
Form DEF 14A
January 27, 2012

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant ý

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))**

ý Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material under §240.14a-12

Liquidity Services, 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):

ý No fee required.

o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
(1) Title of each class of securities to which transaction applies:

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

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

(4) Proposed maximum aggregate value of transaction:

(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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Fellow Stockholders:

We are pleased to invite you to attend the 2012 Annual Meeting of Stockholders of Liquidity Services, Inc. to be held on Wednesday, February 29, 2012, at 3:00 p.m., Eastern Time, at the offices of Gibson, Dunn & Crutcher LLP, located at 1050 Connecticut Avenue, NW, Washington, DC 20036.

Details regarding admission to the Annual Meeting and the business to be conducted are more fully described in the accompanying Notice of Annual Meeting of Stockholders and proxy statement.

Your vote is important. Whether or not you plan to attend the Annual Meeting, we hope you will vote as soon as possible. You may vote over the Internet, by telephone or by mailing a proxy or voting instruction card. Voting over the Internet, by phone or by written proxy will ensure your representation at the Annual Meeting regardless of whether you attend in person. Please review the instructions on the proxy or voting instruction card regarding each of these voting options.

Thank you for your ongoing support and continued interest in Liquidity Services, Inc.

Sincerely,

/s/ WILLIAM P. ANGRICK, III

WILLIAM P. ANGRICK, III
Chairman of the Board and Chief Executive Officer

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NOTICE OF ANNUAL MEETING OF LIQUIDITY SERVICES, INC. STOCKHOLDERS

Important Notice Regarding the Availability of Proxy Materials for the Stockholders Meeting to be Held on February 29, 2012: This Notice of Annual Meeting of Stockholders and Proxy Statement, Annual Report and Other Proxy Materials are Available at *www.envisionreports.com/LQDT.*

Time and Date	3:00 p.m., Eastern Time, on February 29, 2012.
Place	The offices of Gibson, Dunn & Crutcher LLP, located at 1050 Connecticut Avenue, NW, Washington, DC 20036.
Items of Business	
	Elect the two Class III directors named in the proxy statement to the Board of Directors to hold office until our Annual Meeting of Stockholders in 2015 or until their respective successors have been elected or appointed;
	Ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for fiscal 2012;
	Approve an advisory resolution on executive compensation; and
	Transact any other business that may properly come before the Annual Meeting or any adjournment or postponement of the Annual Meeting.
Adjournments and Postponements	Any action on the items of business described above may be considered at the Annual Meeting at the time and on the date specified above or at any time and date to which the Annual Meeting may be properly adjourned or postponed.
Record Date	You are entitled to notice of and to vote at the Annual Meeting and at any adjournment or postponement that may take place only if you were a stockholder as of the close of business on January 3, 2012.
Annual Meeting Admission	You will need an admission ticket or proof of ownership to enter the Annual Meeting. If your shares are held beneficially in the name of a broker, bank or other nominee and you plan to attend the Annual Meeting, you must present proof of your ownership of Liquidity Services stock, such as a bank or brokerage account statement, to be admitted to the Annual Meeting. If you would rather have an admission ticket, you may obtain one in advance by mailing a written request, along with proof of your ownership of Liquidity Services stock, to: Liquidity Services, Inc., Attn: Julie Davis, 1920 L Street, NW, 6th Floor, Washington, DC 20036. All stockholders also must present a form of personal identification in order to be admitted to the Annual Meeting. No cameras, recording equipment, electronic devices, large bags, briefcases or packages will be permitted in the Annual Meeting.

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Voting

Your vote is very important. Whether or not you plan to attend the Annual Meeting, we encourage you to read this proxy statement and submit your proxy or voting instruction card as soon as possible. You may submit your proxy or voting instruction card for the Annual Meeting by completing, signing, dating and returning your proxy or voting instruction card in the pre-addressed envelope provided, or, in most cases, by using the telephone or the Internet. For specific instructions on how to vote your shares, please refer to the section entitled "Questions and Answers" beginning on page 1 of this proxy statement and the instructions on the proxy or voting instruction card. You may revoke a proxy prior to its exercise at the Annual Meeting by following the instructions in the accompanying proxy statement. Any stockholder attending the Annual Meeting may personally vote on all matters that are considered, in which event the signed proxy will be revoked.

This Notice of Annual Meeting of Stockholders, proxy statement, proxy card and voting instructions and our 2011 Annual Report are first being mailed on or about January 27, 2012.

By Order of the Board of Directors,

/s/ JAMES E. WILLIAMS

James E. Williams
Vice President, General Counsel and Corporate Secretary

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LIQUIDITY SERVICES, INC.

1920 L STREET, NW, 6th FLOOR
WASHINGTON, DC 20036

PROXY STATEMENT

QUESTIONS AND ANSWERS

Why did I receive these proxy materials?

We are sending you this proxy statement as part of a solicitation by the Board of Directors of Liquidity Services, Inc. for use at our 2012 Annual Meeting of Stockholders (the "Annual Meeting") and at any adjournment or postponement that may take place. Unless the context otherwise requires, the terms "us," "we," "our" and the "Company" include Liquidity Services, Inc. and its consolidated subsidiaries.

You are invited to attend our Annual Meeting on Wednesday, February 29, 2012, beginning at 3:00 p.m., Eastern Time. The Annual Meeting will be held at the offices of Gibson, Dunn & Crutcher LLP, located at 1050 Connecticut Avenue, NW, Washington, DC 20036.

This Notice of Annual Meeting of Stockholders, proxy statement, proxy card and voting instructions and our 2011 Annual Report are first being mailed on or about January 27, 2012.

Do I need a ticket to attend the Annual Meeting?

You will need an admission ticket or proof of ownership to enter the Annual Meeting. If you plan to attend the Annual Meeting, please vote your proxy prior to the Annual Meeting but keep the admission ticket and bring it with you to the Annual Meeting.

If your shares are held beneficially in the name of a broker, bank or other nominee and you plan to attend the Annual Meeting, you must present proof of your ownership of Liquidity Services common stock, such as a bank or brokerage account statement, to be admitted to the Annual Meeting. If you would rather have an admission ticket, you may obtain one in advance by mailing a written request, along with proof of your ownership of Liquidity Services stock, to:

Liquidity Services, Inc.
Attn: Julie Davis
1920 L Street, NW, 6th Floor
Washington, DC 20036

All stockholders also must present a form of personal identification in order to be admitted to the Annual Meeting.

No cameras, recording equipment, electronic devices, large bags, briefcases or packages will be permitted in the Annual Meeting.

Who is entitled to vote at the Annual Meeting?

Holders of Liquidity Services common stock at the close of business on January 3, 2012 (the "Record Date") are entitled to receive this Notice and to vote their shares at the Annual Meeting. As of the Record Date, there were 30,557,251 shares of common stock outstanding and entitled to vote. All holders of common stock shall vote together as a single class on each matter properly brought before the Annual Meeting.

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What is the difference between holding shares as a stockholder of record and as a beneficial owner?

If your shares are registered directly in your name with Liquidity Services' transfer agent, Computershare Trust Company, N.A., you are considered the "stockholder of record" with respect to those shares. The Notice of Annual Meeting of Stockholders, proxy statement, proxy card and voting instructions and our fiscal 2011 Annual Report have been sent directly to you by Liquidity Services.

If your shares are held in a stock brokerage account or by a bank or other nominee, you are considered the "beneficial owner" of shares held in street name. Access to the Notice of Annual Meeting of Stockholders, proxy statement, voting instruction card and voting instructions and our fiscal 2011 Annual Report is being provided to you by your bank, broker or other nominee, who is considered the stockholder of record with respect to those shares. As the beneficial owner, you have the right to direct your broker, bank or other nominee on how to vote your shares by using the voting instruction card included in the mailing or by following their instructions for voting by telephone or on the Internet (if available).

How do I vote?

You may vote using any of the following methods:

By Mail

Complete, sign and date the proxy card or voting instruction card and return it in the prepaid envelope. If you are a stockholder of record and you return your signed proxy card but do not indicate your voting preferences, the persons named in the proxy card will vote the shares represented by that proxy in accordance with the recommendations of the Board of Directors set forth under "What are the voting requirements for the matters to be voted on at the Annual Meeting?" below.

If you are a stockholder of record, and the prepaid envelope is missing, please mail your completed proxy card to **Liquidity Services, Inc., 1920 L Street, NW, 6th Floor, Washington, DC 20036, Attn: Corporate Secretary**.

By Telephone or on the Internet

The telephone and Internet voting procedures established by Liquidity Services for stockholders of record are designed to authenticate your identity, allow you to give your voting instructions and confirm that those instructions have been properly recorded.

You may vote by calling the toll-free telephone number on your proxy card. Please have your proxy card in hand when you call. Easy-to-follow voice prompts allow you to vote your shares and confirm that your instructions have been properly recorded. If you are located outside the United States, see your proxy card for additional instructions.

The website for Internet voting is *www.envisionreports.com/LQDT*. Please have your proxy card available when you go online. As with telephone voting, you can confirm that your instructions have been properly recorded. If you vote on the Internet, you also can request electronic delivery of future proxy materials.

Telephone and Internet voting facilities for stockholders of record will be available 24 hours a day, and will close at 11:59 p.m., Eastern Time, on February 28, 2012.

The availability of telephone and Internet voting for beneficial owners will depend on the voting processes of your broker, bank or other nominee, and we recommend that you follow the voting instructions in the materials you receive from them.

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If you vote by telephone or on the Internet, you do not have to return your proxy card or voting instruction card.

In Person at the Annual Meeting

All stockholders may vote in person at the Annual Meeting. You may also be represented by another person at the Annual Meeting by executing a legal proxy designating that person. If you are a beneficial owner of shares, you must obtain a legal proxy from your broker, bank or other nominee and present it to the inspectors of election with your ballot to be able to vote at the Annual Meeting.

What can I do if I change my mind after I vote my shares?

If you are a stockholder of record, you can revoke your proxy before it is exercised by:

sending written notice to the Corporate Secretary of the Company;

delivering a valid, later-dated proxy or a later-dated vote by telephone or on the Internet prior to the Annual Meeting; or

voting in person at the Annual Meeting.

If you are a beneficial owner of shares, you can revoke your proxy before it is exercised by submitting new voting instructions by contacting your broker, bank or other nominee. You may also vote in person at the Annual Meeting if you obtain a legal proxy as described in the answer to the previous question.

All shares represented by properly executed proxies received prior to the Annual Meeting and not revoked will be voted in accordance with the instructions indicated in such proxies. Properly executed proxies that do not contain voting instructions will be voted in accordance with the recommendations of the Board of Directors set forth under "What are the voting requirements for the matters to be voted on at the Annual Meeting?" below.

What shares can I vote?

You can vote all shares that you owned on the Record Date. These shares include (1) shares held directly in your name as the stockholder of record; and (2) shares held for you as the beneficial owner through a broker, bank or other nominee. Each outstanding share of Liquidity Services stock entitles its holder to cast one vote for each director nominee and one vote on each other matter to be voted upon.

What is "householding" and how does it affect me?

We have adopted a procedure approved by the Securities and Exchange Commission (the "SEC") called "householding." Under this procedure, stockholders of record who have the same address and last name and do not participate in electronic delivery of proxy materials will receive only one copy of our Notice of Annual Meeting of Stockholders and proxy statement and fiscal 2011 Annual Report, unless one or more of these stockholders notifies us that they wish to receive an individual copy. This procedure reduces our printing costs and postage fees and conserves natural resources.

Stockholders who participate in householding will continue to receive separate proxy cards.

If you are eligible for householding, but you and other stockholders of record with whom you share an address currently receive multiple copies of the Notice of Annual Meeting of Stockholders and proxy statement and fiscal 2011 Annual Report, or if you hold stock in more than one account, and in either case you wish to receive only a single copy of each of these documents for your household, please contact our transfer agent, Computershare Trust Company, N.A. (in

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writing: P.O. Box 43078, Providence, RI 02940-3078; from within the United States by telephone: (800) 662-7232; from outside the United States by telephone: (781) 575-2879).

If you participate in householding and wish to receive a separate copy of this Notice of Annual Meeting of Stockholders and proxy statement and fiscal 2011 Annual Report, please contact Computershare Trust Company, N.A., as indicated above and, upon written or oral request, a separate copy of these documents will be delivered to you promptly. Additionally, if you do not wish to participate in householding and prefer to receive separate copies of these documents in the future, please contact Computershare Trust Company, N.A., as indicated above.

If you are a beneficial owner of shares, you may request information about householding from your broker, bank or other nominee.

Is there a list of stockholders entitled to vote at the Annual Meeting?

The names of stockholders of record entitled to vote at the Annual Meeting will be available at the Annual Meeting and for ten days prior to the Annual Meeting for any purpose germane to the Annual Meeting, between the hours of 9:30 a.m. and 4:30 p.m., at our principal executive offices at 1920 L Street, NW, 6th Floor, Washington, DC 20036, by contacting the Corporate Secretary of the Company.

How can I vote on each of the matters?

In the election of directors, you may vote "for" all of the nominees, or your vote may be "withheld" with respect to one or all of the nominees. For the ratification of Ernst & Young LLP as our independent registered public accounting firm and approval of the advisory resolution on executive compensation, you may vote "for" or "against," or you may indicate that you wish to "abstain" from voting on the matter.

What is the quorum requirement for the Annual Meeting?

The presence of the holders of a majority of the outstanding shares of common stock entitled to vote at the Annual Meeting, present in person or represented by proxy, is necessary to constitute a quorum. Abstentions and "broker non-votes" are counted as present and entitled to vote for purposes of determining a quorum. A "broker non-vote" occurs when a broker, bank or other nominee holding shares for a beneficial owner does not vote on a particular proposal because that holder does not have discretionary voting power for that particular item and has not received instructions from the beneficial owner.

Brokers, banks and other nominees are not permitted to vote without instructions from the beneficial owner in the election of directors or on the advisory resolution on executive compensation. Therefore, if your shares are held through a broker, bank or other nominee, they will not be voted on these matters unless you affirmatively vote your shares in one of the ways described above. If you are a beneficial owner, your broker, bank or other nominee is permitted to vote your shares on the ratification of Ernst & Young LLP as our independent registered public accounting firm even if the broker, bank or other nominee does not receive voting instructions from you.

What are the voting requirements for the matters to be voted on at the Annual Meeting?

A plurality of the votes cast is required for the election of directors. This means that the director nominees with the most "for" votes will be elected. Thus, shares as to which a stockholder withholds voting authority and broker non-votes will not be counted towards any director nominee's achievement of a plurality and will have no effect on the outcome of the election of directors. Stockholders may not cumulate their votes in favor of any one nominee.

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A majority of the votes cast by stockholders present, in person or by proxy, at the meeting and entitled to vote on the matter is required to ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm and to approve the advisory resolution on executive compensation. Abstentions and broker non-votes, if any, will not be counted as votes cast and will have no effect on the outcome of these items.

If you are a registered holder and sign your proxy card with no further instructions, your shares will be voted in accordance with the recommendations of the Board ("for" all director nominees named in the proxy statement, "for" the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for fiscal 2012, and "for" the approval of the advisory resolution on executive compensation).

Could other matters be decided at the Annual Meeting?

As of the date of this proxy statement, we did not know of any matters to be acted on at the Annual Meeting other than those referred to in this proxy statement.

If other matters are properly presented at the Annual Meeting for consideration, the proxy holders named on the proxy card will have the discretion to vote on those matters for you.

Can I access the Notice of Annual Meeting of Stockholders and proxy statement on the Internet?

The Notice of Annual Meeting of Stockholders and proxy statement are available under the Investors section of our website at *www.liquidityservicesinc.com*. Instead of receiving future copies of our proxy statement by mail, most stockholders can elect to receive an e-mail that will include electronic links to out proxy statement. Opting to receive your proxy materials online will save us the cost of producing and mailing documents to your home or business, and also will give you an electronic link to the proxy voting site.

Stockholders of Record: You may enroll in the electronic proxy delivery service at any time in the future by going directly to *www.computershare.com/investor* and following the enrollment instructions.

Beneficial Owners: If you hold your shares in a brokerage account, you also may have the opportunity to receive copies of these documents electronically. Please check the information provided in the proxy materials mailed to you by your broker, bank or other nominee regarding the availability of this service.

Who will pay for the cost of this proxy solicitation?

We will pay the cost of soliciting proxies. Proxies may be solicited on our behalf by directors, officers or employees, acting without special compensation, in person or by telephone, electronic transmission or facsimile transmission.

Who will count the vote?

Representatives of our transfer agent, Computershare Trust Company, N.A., will tabulate the votes and act as inspectors of election.

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GOVERNANCE OF THE COMPANY

Our Principles of Corporate Governance

The Board of Directors has adopted a set of corporate governance principles as a framework for the governance of the Company. The Corporate Governance and Nominating Committee reviews the principles annually and recommends changes to the Board of Directors as appropriate. Our Corporate Governance Principles, as well as the charters of the Audit, Corporate Governance and Nominating and Compensation Committees, are available on our website, *www.liquidityservicesinc.com*, at "Investors Corporate Governance." Stockholders may request a free copy of any of these documents by sending a written request to our Corporate Secretary at Liquidity Services, Inc., 1920 L Street, NW, 6th Floor, Washington, DC 20036.

Among other matters, the Corporate Governance Principles contain the following items concerning the Board of Directors:

The Board of Directors, which is elected by the Company's stockholders, oversees the management of the Company and its business. The Board selects the senior management team, which is responsible for operating the Company's business, and monitors the performance of senior management.

A majority of the Board is made up of independent directors. An "independent" director is a director who meets, as determined by the Board, the then-current independence requirements of the SEC and the NASDAQ Stock Market, Inc., as applicable, for directors.

The Board has three standing committees: Audit, Corporate Governance and Nominating and Compensation. Each of the Audit, Corporate Governance and Nominating and Compensation Committees consists solely of independent directors. In addition, directors who serve on the Audit Committee must meet additional, heightened independence criteria applicable to audit committee members. All committees report regularly to the full Board with respect to their activities.

The Corporate Governance and Nominating Committee considers and makes recommendations to the Board regarding committee size, structure, composition and functioning. Committee members and chairs are recommended to the Board by the Corporate Governance and Nominating Committee and are appointed by the full Board.

At the invitation of the Board, members of senior management may attend Board meetings or portions of meetings for the purpose of presenting matters to the Board and participating in discussions. Directors also have full and free access to other members of management and to employees of the Company.

The Board has the authority to retain such outside counsel, experts and other advisors as it determines appropriate to assist it in the performance of its functions. Each of the Audit, Corporate Governance and Nominating and Compensation Committees has similar authority to retain outside advisors as it determines appropriate to assist it in the performance of its functions.

The Company has an orientation process for new Board members that is designed to familiarize them with the Company's business, operations, finances and governance practices. In addition, the Board encourages directors to participate in education programs to assist them in performing their responsibilities as directors.

The Board conducts an annual self-evaluation to assess its performance and the performance of the Audit, Corporate Governance and Nominating and Compensation Committees. The ability of individual directors to contribute to the Board is considered in connection with the renomination process. The Corporate Governance and Nominating Committee is responsible for developing, administering and overseeing processes for conducting these evaluations.

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Governance Information

Board Leadership

Currently, Mr. Angrick serves as Chairman of the Board and Chief Executive Officer. The Board presently believes that it is in the best interests of the Company for a single leader to serve as Chairman of the Board and Chief Executive Officer. Combining the roles of Chairman and CEO makes clear that the person serving in these roles has primary responsibility for managing our business, under the oversight and review of the Board. Under this structure, the Chairman and CEO chairs Board meetings during which the Board discusses strategic and business issues. The Board believes that this approach makes sense because the CEO is the individual with primary responsibility for developing our business strategy, directing the work of other officers and leading implementation of our strategic plans as approved by the Board. As a result of this structure, a single leader is directly accountable to the Board and, through the Board, to our stockholders. This structure also enables the CEO to act as the key link between the Board and other members of management. In addition, the Board believes that it is in our best interests at this time to have Mr. Angrick serve as both our Chairman and CEO because of Mr. Angrick's familiarity with our business and history of outstanding leadership. Mr. Angrick co-founded the Company and has served as Chairman and CEO since 2000.

The Board also believes that strong, independent Board leadership is a critical aspect of effective corporate governance. In this regard, the independent directors meet in executive session without management present at least four times per year, and the Board has established the position of Lead Director. The Lead Director is an independent director elected by the independent directors whose responsibility is to chair these executive sessions. The Lead Director also leads and sets the agenda for these executive sessions, provides input to the Chairman and CEO on the agenda for full Board meetings and provides collective feedback from the members of the Board to the Chairman and CEO. Mr. Kramer currently serves as the Lead Director. In addition, each of the Audit, Corporate Governance and Nominating and Compensation Committees is composed of and led by independent directors.

The Board believes that a single leader serving as Chairman and CEO, together with an experienced Lead Director, is the most appropriate leadership structure for the Board at this time. The Board reviews the structure of the Board and the Board's leadership as part of the succession planning process, and the Board may in its discretion separate the roles in the future if it deems it advisable and in the Company's best interests to do so.

Board Oversight of Risk

The Board of Directors has overall responsibility for risk oversight and focuses on the most significant risks facing the Company. In this regard, the Board seeks to understand the material risks we face and to allocate among the full Board and its committees responsibilities for oversight of how management addresses those risks, including the risk management systems and processes management uses for this purpose. Overseeing risk is an ongoing process. Accordingly, the Board considers risks faced by the Company periodically throughout the year and at such other times as the Board considers appropriate with respect to specific proposed actions. The Chairman and CEO is responsible for keeping the Board apprised of material risks facing the Company.

The Board implements its risk oversight function both as a whole and through delegation to various committees. These committees meet regularly and report back to the full Board. The following committees play important roles in carrying out the Board's risk oversight function:

The Corporate Governance and Nominating Committee: The Corporate Governance and Nominating Committee is responsible for overseeing risk management throughout the year. In this regard, the Chairman and CEO updates the Corporate Governance and Nominating

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Committee on material risks facing the Company and how management is addressing such risks and the Corporate Governance and Nominating Committee discusses these risks at each of its regularly scheduled quarterly meetings and more frequently as necessary.

The Audit Committee: The Audit Committee oversees our processes for assessing financial-related risks and the effectiveness of our system of internal controls. In performing this function, the Audit Committee reviews and discusses with our independent registered public accounting firm and management the Company's significant risk exposures and the steps management has taken to monitor and control such exposures.

The Compensation Committee: The Compensation Committee oversees risks related to the Company's compensation structure and assesses whether the Company's compensation structure establishes appropriate incentives for management and employees.

The Board believes that our leadership structure, discussed under "Board Leadership" above, supports the risk oversight function of the Board. We have a combined Chairman and CEO who keeps the Board informed about the risks we face. In addition, independent directors chair and serve on the various committees involved with risk oversight. We also encourage open communication between senior management and directors.

Risk Considerations in Our Compensation Program. The Company's management has conducted an assessment of the risk associated with the Company's current compensation programs covering its employees, including executives. Management's risk assessment considered the following:

The Company's compensation programs appropriately balance fixed compensation with short-term and long-term variable compensation and cash-based compensation with equity-based compensation such that no one pay element would motivate employees to engage in excessive risk taking.

The design of the Company's annual incentive program does not lend itself to excessive risk taking because we:

- fund annual incentive awards based on a variety of pre-established performance conditions, thus diversifying the risk associated with any single indicator of performance;
- establish performance targets that are objectively determined with verifiable results;
- incorporate pre-established caps in any awards; and
- retain discretion to decrease bonus payouts.

The Company's long-term incentive program encourages employees to focus on the long-term success of the Company by providing a mix of stock options, which only reward employees if the Company's stock price increases, and restricted stock, which generates a relatively stable source of income, reducing the motivation employees may have to take excessive risks.

Communications with Directors

Stockholders and other interested parties may communicate with the Board of Directors by writing c/o the Corporate Secretary, Liquidity Services, Inc., 1920 L Street, NW, 6th Floor, Washington, DC 20036. Communications intended for a specific director or directors should be addressed to the attention of the relevant individual(s) c/o the Corporate Secretary at the same address.

Our Corporate Secretary will review all correspondence intended for the Board and will regularly forward to the Board a summary of such correspondence and a copy of correspondence that, in the opinion of the Corporate Secretary, is of significant importance to the functions of the Board or otherwise requires the Board's attention. Directors may at any time review a log of all correspondence

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received by the Corporate Secretary that is intended for the Board and request copies of any such correspondence.

In addition, the Audit Committee has established a procedure for parties to submit concerns regarding what they believe to be questionable accounting, internal accounting controls and auditing matters. Concerns may be reported through our Compliance Hotline at (888) 475-8376. Concerns may be submitted anonymously and confidentially.

Director Independence

The Board makes an affirmative determination regarding the independence of each director annually, based upon the recommendation of the Corporate Governance and Nominating Committee. Under the NASDAQ Stock Market, Inc. listing standards, an independent director is a person that the Board of Directors determines to be free of any relationship with Liquidity Services that, in the opinion of the Board, would interfere with the exercise of such person's independent judgment in carrying out the responsibilities of a director, and to meet the then-current objective standards for "director independence" set forth in the listing standards. The Board has not established categorical standards or guidelines to use in making these independence determinations but considers all relevant facts and circumstances. In addition to the Board-level standards for director independence, the directors who serve on the Audit Committee each must satisfy standards established by the SEC, which provide that to qualify as "independent" for the purposes of membership on that committee, members may not accept, directly or indirectly, any consulting, advisory, or other compensatory fee from Liquidity Services other than their director compensation.

The Board of Directors has determined that each of our directors other than Mr. Angrick, our Chairman and CEO, and Mr. Mateus-Tique, our former President and Chief Operating Officer, qualifies as "independent" in accordance with the NASDAQ Stock Market, Inc. listing standards, as follows: Mr. Clough, Mr. Ellis, Mr. Gross, Mr. Kramer and Mr. Perdue. In addition, Mr. Fowler, who retired from the Board in February 2011, also qualified as an "independent" director.

Code of Business Conduct and Ethics

Our Board of Directors has adopted a Corporate Code of Business Conduct and Ethics (the "Code") applicable to all of our directors, officers and employees in order to protect and promote organization-wide integrity and to enhance Liquidity Services' ability to achieve its mission.

The Code embodies general principles such as compliance with laws, acting with honesty and integrity, avoidance of conflicts of interest, maintenance of accurate and timely financial and business records, use of the Company's assets for legitimate business purposes only, provision and acceptance of gifts to or from customers, suppliers and governments in compliance with law, protecting the Company's information and dealing fairly with other companies.

All directors, officers, and employees are obligated to report violations and suspected violations of the Code and any concerns they may have pertaining to non-compliance with the Code by following certain procedures described in the Code. All reports of suspected Code violations will be forwarded to the General Counsel, except for complaints and concerns involving accounting or auditing matters, which will be handled in accordance with procedures established by the Audit Committee.

The Code is available on our website, *www.liquidityservicesinc.com*, at "Investors Corporate Governance LSI Code of Business Conduct and Ethics." A free printed copy is available to any stockholder who requests it by writing to us at the address on page 1. We intend to disclose future amendments to certain provisions of the Code, or waivers of such provisions granted to executive officers and directors, on our website within four business days following the date of such amendment or waiver.

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Board and Committee Membership

Our bylaws provide that our Board of Directors shall consist of at least three members. The exact number of members of our Board of Directors will be determined from time to time by resolution of our Board of Directors. Our Board of Directors currently is composed of seven directors, divided into three classes: Class I, Class II and Class III. The term for each class of directors expires at successive annual meetings. The Class I directors are William P. Angrick, III and David A. Perdue, Jr., the Class II directors are Phillip A. Clough, George H. Ellis and Jaime Mateus-Tique, and the Class III directors are Patrick W. Gross and Franklin D. Kramer.

The Board of Directors met ten times and acted once by unanimous written consent during fiscal 2011. Each of our directors attended 75% or more of the aggregate of the total number of meetings of the Board of Directors held while he was a director and of each standing committee on which he served during the period in which the director served as a member of that committee. Our Board has adopted a policy that our directors are encouraged to attend each Annual Meeting of Stockholders. Four members of our Board of Directors attended the 2011 Annual Meeting.

The table below provides membership information for the Board of Directors and for each standing committee of the Board as of the date of this proxy statement.

Name	Position	Year Current Term Expires	Audit Committee Member	Compensation Committee Member	Corporate Governance and Nominating Committee Member
Mr. Angrick	Class I director	2013			
Mr. Clough	Class II director	2014		X	X
Mr. Ellis	Class II director	2014	X*		
Mr. Gross	Class III director	2012	X	X*	X
Mr. Kramer	Class III director	2012	X	X	X*
Mr. Mateus-Tique	Class II director	2011			
Mr. Perdue	Class I director	2013		X	X

* Chair

The Audit Committee

Under the terms of its Charter, the Audit Committee meets at least four times per fiscal year, including periodic meetings in executive session with Liquidity Services' management and Liquidity Services' independent registered public accounting firm, and reports regularly to the full Board of Directors with respect to its activities. The Audit Committee represents and assists the Board of Directors in overseeing Liquidity Services' accounting and financial reporting processes and the audits of Liquidity Services' financial statements, including the integrity of the financial statements, Liquidity Services' compliance with legal and regulatory authority requirements, the independent registered public accounting firm's qualifications and independence, the performance of Liquidity Services' independent registered public accounting firm, and the preparation of a report of the Audit Committee to be included in Liquidity Services' annual proxy statement. Specifically, the Audit Committee is responsible for:

Directly appointing, retaining, compensating, evaluating and overseeing the Company's independent registered public accounting firm, which reports directly to the Committee;

Reviewing and pre-approving all audit and permissible non-audit services to be provided by the independent registered public accounting firm, and establishing policies and procedures for the pre-approval of audit and permissible non-audit

services to be provided by the independent registered public accounting firm;

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At least annually, obtaining and reviewing a report by the independent registered public accounting firm describing: (a) the auditors' internal quality-control procedures; and (b) any material issues raised by the most recent internal quality-control review, or peer review, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, with respect to one or more independent audits carried out by the independent registered public accounting firm, and any steps taken to deal with any such issues;

At least annually, reviewing the qualifications, independence and performance of the independent registered public accounting firm, and discussing with the independent registered public accounting firm its independence. As part of such annual review, the Committee will obtain and review a report by the independent registered public accounting firm describing all relationships between the independent registered public accounting firm and the Company, consistent with professional standards applicable to independent registered public accounting firms, and any other relationships that may impact the independent registered public accounting firm's independence;

Upon completion of the annual audit, reviewing with the independent registered public accounting firm its experiences, any audit problems or difficulties encountered (including restrictions on its work, cooperation received or not received, and significant disagreements with corporate management) and management's response, and findings and recommendations concerning the annual audit of the Company's financial statements;

Meeting to review and discuss with corporate management and the independent registered public accounting firm the annual audited financial statements, and the unaudited quarterly financial statements, including reviewing the Company's specific disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Annual and Quarterly Reports the Company files with the SEC;

Reviewing and discussing earnings press releases, corporate practices with respect to earnings press releases and financial information and earnings guidance provided to analysts and ratings agencies;

Reviewing and discussing with management and the independent registered public accounting firm the Company's major risk exposures and the steps management has taken to monitor and control such exposures;

Reviewing the adequacy and effectiveness of the Company's internal control procedures and internal controls over financial reporting, and any programs instituted to correct deficiencies;

Reviewing and discussing the adequacy and effectiveness of the Company's disclosure controls and procedures;

Overseeing the Company's compliance systems with respect to legal and regulatory requirements and reviewing the Company's Code of Business Conduct and Ethics and programs to monitor compliance with such Code;

Establishing procedures for the submission of complaints regarding accounting, internal accounting controls or auditing matters. These procedures address the receipt, retention and treatment of complaints received by the Company and the confidential, anonymous submission of employee concerns about questionable auditing or accounting matters;

Investigating or referring matters brought to its attention, as appropriate, with full access to all books, records, facilities and personnel of the Company;

Reviewing the application of significant regulatory, accounting and auditing initiatives, including new pronouncements;

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Establishing policies for the hiring of employees and former employees of the independent registered public accounting firm;

Annually reviewing and reassessing the adequacy of the Audit Committee Charter and evaluating the performance of the Committee, and recommending changes to the Board as appropriate; and

Performing such other functions as assigned by law, the Company's certificate of incorporation or bylaws or the Board of Directors. The Audit Committee met four times and acted once by unanimous written consent during fiscal 2011.

The members of the Audit Committee as of the date of this proxy statement are Messrs. Ellis (Chair), Gross and Kramer. The Board of Directors has determined that each is independent, as defined by the Company's director independence standards and the rules of the NASDAQ Stock Market, Inc. and the SEC, and that Mr. Ellis is an "audit committee financial expert" for purposes of the rules of the SEC.

Under the rules of the SEC, members of the Audit Committee must meet heightened independence standards. The Board of Directors has determined that each of Messrs. Ellis, Gross and Kramer meets these heightened independence standards.

See "Audit Committee Report" below for more information on the Audit Committee.

The Corporate Governance and Nominating Committee

Under the terms of its Charter, the Corporate Governance and Nominating Committee is responsible for identifying individuals qualified to become Board members, recommending director candidates to the Board, developing and recommending amendments to the Corporate Governance Principles to the Board and undertaking a leadership role in shaping corporate governance. Specifically, the committee is responsible for:

Developing and recommending to the Board criteria for identifying and evaluating director candidates;

Identifying, reviewing the qualifications of and recruiting candidates for election to the Board;

Assessing the contributions and independence of incumbent directors in determining whether to recommend them for reelection to the Board;

Reviewing and recommending changes to the Company's policies on stockholder recommendations of director candidates;

Recommending to the Board candidates for election or reelection to the Board at each annual stockholders' meeting;

Recommending to the Board candidates to be elected by the Board as necessary to fill vacancies and newly created directorships;

Reviewing, evaluating and recommending to the Board a set of Corporate Governance Principles and reviewing and recommending changes to these principles, as necessary;

Making recommendations to the Board concerning the structure, composition and functioning of the Board and its committees;

Recommending to the Board candidates for appointment to Board committees;

Reviewing and recommending to the Board retirement and other tenure policies for directors;

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Reviewing and recommending changes to the Company's policies on receiving stockholder communications and proposals;

Reviewing the Company's succession plans relating to the Chief Executive Officer and other senior officers;

Overseeing the annual evaluation of the Board, its committees and directors; and

Annually evaluating the performance of the Committee and the adequacy of the Committee's Charter and recommending changes to the Board as appropriate.

The Corporate Governance and Nomination Committee is also responsible for overseeing risk management at the Company throughout the year.

The Corporate Governance and Nominating Committee met four times and acted once by unanimous written consent during fiscal 2011.

The members of the Corporate Governance and Nominating Committee as of the date of this proxy statement are Messrs. Kramer (Chair), Gross, Clough, and Perdue. The Board of Directors has determined that each of the members of the Corporate Governance and Nominating Committee is independent, as defined by the Company's director independence standards and the rules of the NASDAQ Stock Market, Inc.

The Corporate Governance and Nominating Committee is responsible for recommending candidates for election to the Board and believes that candidates for director should have certain minimum qualifications, including the highest level of integrity, sound judgment, the ability to make independent analytical inquiries, the willingness to devote adequate time and resources to diligently perform Board duties and appropriate and relevant business experience and acumen. The Committee considers the number of other boards of public companies on which the candidate serves. The Committee believes that the Board should also include members who have specific industry experience and familiarity with general issues affecting our business, as discussed in more detail under "Item 1 Election of Directors" below.

The Committee evaluates candidates for the Board on the basis of the standards and qualifications set forth above, and seeks to achieve a diversity of strengths and backgrounds on the Board, particularly in the areas described below. The Committee's review of the skills and experience it seeks in the Board as a whole, and in individual directors, in connection with its review of the Board's composition, enables it to assess the effectiveness of its goal of achieving a Board whose members have a diversity of experiences. The Committee considers these criteria when evaluating director nominees in accordance with the procedures set forth below.

The Corporate Governance and Nominating Committee uses a variety of methods to identify and evaluate candidates for director. Candidates may come to the attention of the Committee through current Board members, professional search firms (to whom we pay a fee), stockholders or other persons. The Committee did not use a professional search firm in fiscal 2011.

The Company's Corporate Governance Principles contain a policy addressing the consideration of candidates for director suggested by our stockholders. Pursuant to this policy, the Committee will consider candidates for director suggested by our stockholders, provided that the recommendations are made in accordance with the procedures required under our bylaws and described in this proxy statement under the heading "Requirements, Including Deadlines, for Submission of Proxy Proposals, Nomination of Directors and Other Business of Stockholders." Director candidates recommended by stockholders in accordance with these procedures and who meet the criteria outlined above, in the Committee's Charter and in our Corporate Governance Principles will be evaluated by the Corporate Governance and Nominating Committee in the same manner as other director candidates.

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The Compensation Committee

Under the terms of its Charter, the Compensation Committee is responsible for assisting the Board of Directors in discharging its responsibilities relating to compensation of Liquidity Services' executive officers and producing the annual report on executive compensation to be included in Liquidity Services' annual proxy statement. Specifically, the Compensation Committee is responsible for:

- Overseeing the Company's overall compensation structure, policies and programs, and assessing whether the Company's compensation structure establishes appropriate incentives for management and employees;
- Administering and making recommendations to the Board with respect to the Company's incentive compensation and equity-based compensation plans;
- Reviewing and approving corporate goals and objectives relevant to the compensation of the CEO and other executive officers, evaluating the CEO's performance in light of those goals and objectives and approving the CEO's compensation;
- Overseeing the evaluation of other executive officers and setting their compensation based upon the recommendations of the CEO;
- Approving stock option and other stock incentive awards for all employees;
- Reviewing and recommending employment and severance arrangements for executive officers, including change-in-control provisions, plans or agreements;
- Reviewing the compensation of outside directors for service on the Board and its committees and recommending changes in compensation to the Board;
- Annually evaluating the performance of the Committee and the adequacy of the Committee's Charter and recommending changes to the Board as appropriate; and
- Performing such other duties and responsibilities as are consistent with the purpose of the Committee and as the Board or the Committee deems appropriate.

The Compensation Committee met nine times and acted once by unanimous written consent in fiscal 2011.

The members of the Compensation Committee as of the date of this proxy statement are Messrs. Gross (Chair), Clough, Kramer and Perdue. The Board of Directors has determined that each of the members of the Compensation Committee is independent, as defined by the Company's director independence standards and the rules of the NASDAQ Stock Market, Inc.

For additional information about the Compensation Committee's policies and procedures, please see "Compensation Discussion & Analysis" below.

COMPENSATION OF NON-EMPLOYEE DIRECTORS

Our non-employee directors receive a combination of equity and cash compensation for service on our Board of Directors. Directors who are employed by the Company (including Mr. Angrick) do not receive any compensation for their service as directors. The Compensation Committee, in consultation with Towers Watson, its independent compensation consultant, periodically reviews non-employee director

compensation and recommends changes based on competitive market data. In January 2011, the Compensation Committee recommended keeping the non-employee director compensation program for fiscal 2011 the same as the program in place for fiscal 2010, except to increase the additional retainer for the Audit Committee Chairman from $10,000 to $15,000, and the Board of Directors approved this recommendation.

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For fiscal 2011, each of our non-employee directors received an annual cash retainer of $30,000. Committee chairs received an additional annual retainer as follows: $15,000 for the Audit Committee and $5,000 for each of the Compensation Committee and the Corporate Governance and Nominating Committee. All amounts paid to our non-employee directors are paid quarterly in arrears, unless an election was made otherwise, except that retainers for committee chair service are paid in advance. Our non-employee directors have the opportunity to receive payment of their cash retainers in the form of stock option grants or grants of restricted stock by making an irrevocable one-time annual election. Stock options received pursuant to this election vest on the last day of the fiscal year with respect to which such stock options were granted. All restrictions applicable to the restricted shares received pursuant to this election also lapse on the last day of the fiscal year with respect to which such restricted shares were granted.

In addition to a cash retainer, non-employee directors also receive equity-based compensation. Annual non-employee director equity awards are granted in February, coinciding with our annual meeting, and vest on the one-year anniversary of the grant date, subject to the director's continued service with the Company through that date. Stock options granted to non-employee directors expire ten years from the date of grant. Annual cash retainers and equity compensation for new non-employee directors is pro-rated based on when they join the Board during the fiscal year.

For fiscal 2011, each non-employee director received an annual equity award with an aggregate value of $90,000 granted under the Liquidity Services, Inc. 2006 Omnibus Long-Term Incentive Plan. Sixty percent of the annual equity award was provided in the form of stock options with a grant date fair value of $54,000, and forty percent of the annual equity award was provided in the form of restricted stock having a grant date fair value of $36,000. On February 1, 2011, we granted each of our non-employee directors options to purchase 15,012 shares of our common stock with an exercise price per share of $14.30 and 2,517 shares of restricted stock. The determination of the number of stock options to be granted was made using the Black-Scholes model. The number of shares of restricted stock to be granted was determined by dividing the value of the award by the closing price of our common stock on the grant date.

The non-employee director compensation described above is summarized in the following table:

Annual Compensation Element for Role	Board Compensation
General Board Service Cash Retainer	$30,000
Committee Chair Service Cash Retainer	
Audit	$15,000
Compensation	$5,000
Corporate Governance and Nominating	$5,000
General Board Service Equity	
Stock Option Value (60%)	$54,000
Restricted Stock Value (40%)	$36,000
Vesting Schedule	Stock options and restricted stock vest on the one-year anniversary of the grant date

In addition to the compensation described above, our non-employee directors are reimbursed for expenses they incur in attending meetings of the Board of Directors or Board committees.

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DIRECTOR COMPENSATION FOR FISCAL 2011

The following table sets forth the total cash and equity compensation paid to our non-employee directors for their service on the Board of Directors and committees of the Board of Directors during fiscal 2011:

Name	Retainer fees paid in cash ($)(1)	Stock Awards ($)(2)(3)	Option Awards ($)(2)(4)	Total ($)
Phillip A. Clough	$ 30,000	36,000	54,000	$ 120,000
George H. Ellis	45,000	36,000	54,000	135,000
F. David Fowler(5)	10,000			10,000
Patrick W. Gross	35,000	36,000	54,000	125,000
Franklin D. Kramer	35,000	36,000	54,000	125,000
Jaime Mateus-Tique	30,000	36,000	54,000	120,000
David A. Perdue	30,000	36,000	54,000	120,000

(1) Retainer fees, at the election of each director, may be paid in cash or in the form of stock options or restricted stock. For fiscal 2011, Messrs. Clough and Perdue elected to receive their retainer fees in the form of restricted stock. As a result, Messrs. Clough and Perdue each were granted 2,098 shares of restricted stock with a grant date fair value of $30,000, on February 1, 2011. The restrictions on these shares will lapse on February 1, 2012.

(2) The amounts reported in these columns reflect the aggregate grant date fair value of grants of stock options and restricted stock awards to each of the non-employee directors, computed in accordance with U.S. generally accepted accounting principles, disregarding estimates of forfeitures related to service-based vesting conditions. For additional information about the assumptions used in these calculations, see Note 2 to our audited consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2011. As described above, in fiscal 2011, each nonemployee director was granted options to purchase 15,012 shares of our common stock with a grant date fair value of approximately $54,000. Each non-employee director also was granted 2,517 shares of restricted stock with a grant date fair value of approximately $36,000. We calculate the grant date fair value of a restricted stock award by multiplying the closing price of our common shares on the grant date by the number of shares subject to such award.

(3) At September 30, 2011, each of our non-employee directors held the following shares of unvested restricted stock: Phillip A. Clough, 4,615 shares; George H. Ellis, 2,517 shares; F. David Fowler, 0 shares; Patrick W. Gross, 2,517 shares; Franklin D. Kramer, 2,517 shares; Jaime Mateus-Tique, 2,517 shares; and David A. Perdue, 4,615 shares.

(4) At September 30, 2011, each of our non-employee directors held the following stock option awards, some of which were not fully vested: Phillip A. Clough, 78,352 options; George H. Ellis, 15,012 options; F. David Fowler, 0 options; Patrick W. Gross, 111,335 options; Franklin D. Kramer, 111,335 options; Jaime Mateus-Tique, 214,624 options; and David A. Perdue, 33,624 options.

(5) Mr. Fowler retired from the Board of Directors in February 2011.

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BENEFICIAL OWNERSHIP OF SHARES OF COMMON STOCK

The following table sets forth information regarding ownership of our common stock as of January 3, 2012, other than as set forth below, by each of our directors and named executive officers, all of our directors and executive officers as a group and the holders of 5% or more of our common stock known to us. The information in this table is based on our records, information filed with the SEC and information provided to us. To our knowledge, except as disclosed in the table below, none of our stockholders hold more than 5% of our common stock. Except as otherwise indicated, (1) each person has sole voting and investment power (or shares such powers with his or her spouse) with respect to the shares set forth in the following table and (2) the business address of each person shown below is 1920 L Street, NW, 6th Floor, Washington, DC 20036, other than for Ashford Capital Management, Inc. and Royce & Associates, LLC.

	Number of Shares Beneficially Owned	Percentage of Shares Outstanding(1)
5% Stockholders:		
Ashford Capital Management, Inc.(2) P.O. Box 4172 Wilmington, DE 19807	1,784,900	5.84%
Royce & Associates, LLC(3) 745 Fifth Avenue New York, NY 10151	1,522,423	5.0%
Named Executive Officers and Directors:		
William P. Angrick, III(4)	6,847,003	22.4%
James M. Rallo(5)	9,139	*
Thomas B. Burton(6)	62,069	*
Eric C. Dean(7)	211,283	*
G. Cayce Roy(8)	135,846	*
Philip A. Clough(9)	98,134	*
George H. Ellis(10)	20,052	*
Patrick W. Gross(11)	258,371	*
Franklin D. Kramer(12)	179,934	*
Jaime Mateus-Tique(13)	659,281	2.1%
David A. Perdue, Jr.(14)	44,407	*
All executive officers and directors as a group (12 individuals)(15)	8,525,519	26.9%

* Less than 1% of the outstanding shares of our common stock.

(1) The percentages are calculated based on 30,557,251 shares of common stock outstanding as of the Record Date.

(2) As of December 31, 2010, based on a review of a Schedule 13G/A filed on February 23, 2011, Ashford Capital Management, Inc. beneficially owned, and had sole voting and investment power with respect to, 1,784,900 shares.

(3) As of December 31, 2010, based on a review of a Schedule 13G filed on January 14, 2011, Royce & Associates, LLC beneficially owned, and had sole voting and investment power with respect to, 1,522,423 shares.

(4) Includes 4,936,426 shares of common stock held by the William P. Angrick, III Revocable Trust, 873,379 shares of common stock held by the William P. Angrick III 2005

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Irrevocable Trust, 114,699 shares of common stock held by the Stephanie S. Angrick Revocable Trust and 575,513 shares of common stock held by the Stephanie S. Angrick 2005 Irrevocable Trust. Mr. Angrick disclaims beneficial ownership of these securities. This amount also includes 41,641 shares of common stock issuable pursuant to options held by Mr. Angrick that are exercisable as of January 3, 2012 or within 60 days of such date.

(5) Includes 8,539 shares of common stock issuable pursuant to options held by Mr. Rallo that are exercisable as of January 3, 2012 or within 60 days of such date.

(6) Includes 53,445 shares of common stock issuable pursuant to options held by Mr. Burton that are exercisable as of January 3, 2012 or within 60 days of such date.

(7) Includes 211,283 shares of common stock issuable pursuant to options held by Mr. Dean that are exercisable as of January 3, 2012 or within 60 days of such date.

(8) Includes 135,846 shares of common stock issuable pursuant to options held by Mr. Roy that are exercisable as of January 3, 2012 or within 60 days of such date.

(9) Includes 82,967 shares of common stock issuable pursuant to options held by Mr. Clough that are exercisable as of January 3, 2012 or within 60 days of such date.

(10) Includes 17,529 shares of common stock issuable pursuant to options held by Mr. Ellis that are exercisable as of January 3, 2012 or within 60 days of such date.

(11) Includes 80,000 shares of common stock held by Sheila Gross, 26,250 shares of common stock held by the Geoffrey Gross Trust, 26,250 shares of common stock held by the Stephanie Gross Trust and 113,852 shares of common stock issuable pursuant to options held by Mr. Gross that are exercisable as of January 3, 2012 or within 60 days of such date.

(12) Includes 113,852 shares of common stock issuable pursuant to options held by Mr. Kramer that are exercisable as of January 3, 2012 or within 60 days of such date.

(13) Includes 1 share of common stock held by the Jaime Mateus-Tique 2005 Irrevocable Trust, 185,262 shares of common stock held by the Em El 2007 Irrevocable Trust, 22,700 shares of common stock held by the Mateus-Tique Foundation and 217,141 shares of common stock issuable pursuant to options held by Mr. Mateus-Tique that are exercisable as of January 3, 2012 or within 60 days of such date.

(14) Includes 38,239 shares of common stock issuable pursuant to options held by Mr. Perdue that are exercisable as of January 3, 2012 or within 60 days of such date.

(15) Includes 1,038,167 shares of common stock issuable pursuant to options held by all executive officers and directors as a group that are exercisable as of January 3, 2012 or within 60 days of such date.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), requires our directors, executive officers and beneficial owners of greater than ten percent of our common stock to file reports of holdings and transactions in Liquidity Services' common stock with the SEC. Based solely on these records, we believe that in fiscal 2011 all persons satisfied these filing requirements on a timely basis, except that, unless otherwise noted, each of the following individuals filed a single Form 4 late. The name of the individual and the number of

transactions that were not timely filed are as follows: William P. Angrick, III (3), James M. Rallo (3), Thomas B. Burton (5 transactions on 2 filings),

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Eric C. Dean (3), G. Cayce Roy (3), James E. Williams (3), F. David Fowler (4) and Jaime Mateus-Tique (1).

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

The Company did not participate in or review any potential related party transactions during fiscal 2011 and there currently are no proposed related party transactions. To be considered a related party transaction under current SEC rules, a transaction must include the Company as a participant, and one of our officers, directors or greater than 5% stockholders or a family member of such person must have a direct or indirect material interest in the transaction. To date, we have not participated in any related party transactions requiring disclosure as such under the SEC disclosure requirements. Should we consider participating in a related party transaction in the future, such transaction would be reviewed and subject to approval by the Audit Committee, in accordance with our written Audit Committee Charter. We have not adopted specific standards that would govern such review.

As a general matter, our written Code of Business Conduct and Ethics prohibits conflicts of interest. We consider a conflict of interest to exist when a person's private interest interferes in any way with the interests of our Company, including: (i) a conflict that makes it difficult for an employee, officer or director to perform his or her work objectively and effectively; (ii) when an employee, officer or director, or any member of his or her family, receives improper personal benefits as a result of his or her position in or with our Company; or (iii) when an employee, officer or director is engaged in a business or business activity that is in competition with or injurious to us. The Code of Business Conduct and Ethics requires that the General Counsel be consulted with any questions about conflicts of interest in addition to requiring that our directors and officers consult with the General Counsel before engaging in any potential conflict of interest transactions.

PROPOSALS REQUIRING YOUR VOTE

ITEM 1 Election of Directors

Our Board of Directors currently is composed of seven directors, divided into three classes: Class I, Class II and Class III. Our Class III directors, elected at the Annual Meeting of Stockholders in 2009, are Patrick W. Gross and Franklin D. Kramer, and their term ends at this Annual Meeting of Stockholders upon the election and qualification of their successors. Our Class I directors, elected at the Annual Meeting of Stockholders in 2010, are William P. Angrick, III and David A. Perdue, Jr., and their term ends at the Annual Meeting of Stockholders in 2013. Our Class II directors, elected at the Annual Meeting of Stockholders in 2011, are Phillip A. Clough, George H. Ellis and Jaime Mateus-Tique, and their term ends at the Annual Meeting of Stockholders in 2014

With respect to the Class III directors to be elected at the Annual Meeting, each nominee for director will, if elected, continue in office until our Annual Meeting of Stockholders in 2015 or until the director's successor has been duly elected and qualified, or until the earlier of the director's death, resignation or retirement.

If you are a stockholder of record, the proxy holders named on the proxy card intend to vote your proxy for the election of each of these nominees, unless you indicate on the proxy card that your vote should be withheld from any or all of the nominees. **Brokers, banks and other nominees are not permitted to vote in the election of directors without instructions from the beneficial owner. Therefore, if your shares are held through a broker, bank or other nominee, they will not be voted in the election of directors unless you affirmatively vote your shares.**

Each nominee has consented to be named as a nominee in this proxy statement, and we expect each nominee for election as a director to be able to serve if elected. If any nominee is unable to serve,

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proxies will be voted in favor of the other nominees and may be voted for substitute nominees selected by the Board, unless the Board chooses to reduce the number of directors serving on the Board.

In evaluating director candidates, and considering incumbent directors for renomination, the Board and the Corporate Governance and Nominating Committee consider a variety of factors as discussed above under "The Corporate Governance and Nominating Committee." Among other things, the Board has determined that it is important to have individuals with the following skills and experiences on the Board:

Industry experience and Company knowledge. We believe that it is important for our directors to have knowledge of the Company and the online auction marketplace industry, which is relevant to understanding the Company's business, operations and strategy.

Senior leadership experience. We believe that it is important for our directors to have served in senior leadership roles at other organizations, which demonstrates strong abilities to motivate and manage others and to identify and develop leadership qualities in others.

High-growth company experience. As a high-growth company, it is important for our directors to have experience with other companies that have undergone periods of significant growth because they can provide insight on the challenges faced by companies in these situations, including how to balance strategic acquisitions with organic growth, manage expectations about the scope, speed and success of our growth strategy and leverage operational infrastructure to support expansion.

Public company board experience. Directors who have served on other public company boards can offer advice and perspective with respect to Board dynamics and operations; the relationship between the Board and Company management; and other matters, including corporate governance, executive compensation and oversight of strategic, operational and compliance-related matters.

Media and technology experience. As a provider of online marketplaces, it is important for our directors to have media and technology experience, especially as this experience relates to the Internet.

Financial and accounting experience. We believe that it is important for our directors to have knowledge of finance and financial reporting processes, which is relevant to understanding and evaluating the Company's capital structure and overseeing the preparation of its financial statements.

Legal experience. Directors who have legal experience can assist the Board in fulfilling its responsibilities related to the oversight of the Company's legal and regulatory compliance efforts, and engagement with regulatory authorities.

Government experience. Directors who have served in positions with government contractors, in government positions or have other experience working with federal, state, local or foreign governments can provide experience and insight into bidding for and obtaining government contracts and working constructively with governments around the world.

The specific qualifications and experience of the individual directors and nominees and certain other information are set forth on the following pages. For more information on the director nomination process, refer to "The Corporate Governance and Nominating Committee" above.

Your Board of Directors unanimously recommends a vote FOR the election of Patrick W. Gross and Franklin D. Kramer as directors.

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BOARD OF DIRECTORS

Name and Age as of January 27, 2012	Biographical Information and Director Qualifications and Experience
William P. Angrick, III Age 44	Mr. Angrick is a co-founder of Liquidity Services who has served as the Chairman of the Board of Directors and Chief Executive Officer of LSI since January 2000. Mr. Angrick also serves as the Chief Executive Officer of Liquidity Services' wholly-owned subsidiary, DOD Surplus, LLC. Prior to co-founding Liquidity Services, Mr. Angrick was at Deutsche Bank Alex Brown from 1995 to 1999, where he served as Vice President of the Consumer and Business Services Investment Banking Group after serving as an Associate. Mr. Angrick holds an M.B.A. from the Kellogg Graduate School of Management at Northwestern University and a B.B.A. with honors from the University of Notre Dame. Mr. Angrick earned his CPA certificate in 1990. As a co-founder and Chairman and CEO of the Company, Mr. Angrick has extensive industry experience and knowledge of the Company. Mr. Angrick also brings to the Board senior leadership experience and financial and accounting experience.
Jaime Mateus-Tique Age 45	Mr. Mateus-Tique is a co-founder of Liquidity Services who has served as a director of LSI since April 2000. Mr. Mateus-Tique served as LSI's President and Chief Operating Officer from April 2000 until his retirement in September 2009. Prior to co-founding Liquidity Services, Mr. Mateus-Tique served as a senior engagement manager at McKinsey & Co., a management consulting firm, from September 1995 to March 2000. Mr. Mateus-Tique holds an M.B.A. from the Kellogg Graduate School of Management at Northwestern University and a master's degree from Ecole des Hautes Etudes Commerciales in Paris. As a co-founder and former President and COO of the Company, Mr. Mateus-Tique has extensive industry experience and knowledge of the Company. Mr. Mateus-Tique also brings to the Board senior leadership experience and media and technology experience.
Phillip A. Clough Age 50	Mr. Clough has served as a director of Liquidity Services since September 2004. Since January 2007, Mr. Clough has been a Managing General Partner of ABS Capital Partners ("ABS"), a private equity firm focused on investments in growth companies in the technology, business services, media and communications and health care industries. From September 2001 to January 2007, Mr. Clough was a General Partner of ABS. Prior to joining ABS, Mr. Clough was President and Chief Executive Officer of Sitel Corporation, a global provider of outsourced customer support services, from May 1998 to March 2001. In addition to serving as a director of Liquidity Services, Mr. Clough currently serves on the boards of directors of Rosetta Stone Inc., a provider of technology-based language learning solutions, and various private companies. Mr. Clough previously served on the board of directors of American Public Education, Inc., a provider of exclusively online post-secondary education, until 2010.

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Name and Age as of January 27, 2012	Biographical Information and Director Qualifications and Experience
	As a Managing General Partner of a private equity firm, Mr. Clough has senior leadership experience and financial experience. Mr. Clough also brings to the Board high-growth company experience, media and technology experience and public company board experience.
George H. Ellis Age 62	Mr. Ellis has served as a director of Liquidity Services since May 2010. Mr. Ellis has been the Chief Financial Officer of Studer Group, a private equity-backed healthcare consulting firm, since September 2011. From July 2006 to August 2011, Mr. Ellis served as the Chief Financial Officer of Global 360, Inc., a software development company. Mr. Ellis has also served in several capacities at Softbrands, Inc., a software developer and provider of related professional services that has been acquired by Golden Gate Capital, as a member of its board of directors from October 2001 to August 2009, serving as Chairman from October 2001 to June 2006, and Chief Executive Officer from October 2001 to January 2006. Mr. Ellis is also a director of Blackbaud, Inc., a supplier of software for non-profit companies, where he is Chairman of the audit committee. Mr. Ellis served on the board of directors of NEON Systems, Inc., from January 2000 to December 2005 and PeopleSupport, Inc., from October 2004 to October 2008. He also served as a director of AremisSoft Corp. from April 1999 until February 2001 and as Chairman and Chief Executive Officer of AremisSoft from October 2001 to July 2002. AremisSoft confirmed its plan of reorganization under Chapter 11 of the U.S. Federal Bankruptcy Code in August 2002. Previously, Mr. Ellis served as Chief Financial Officer of Sterling Software, Inc., Chief Financial Officer and founder of Sterling Commerce, Inc., a spin-off of Sterling Software, and Executive Vice President and Chief Operating Officer of the Communities Foundation of Texas. Mr. Ellis also is a Certified Public Accountant and is admitted to the State Bar of Texas. As a CFO and former Chairman and CEO of several companies and an audit committee member, Mr. Ellis has senior leadership experience and financial and accounting experience. Mr. Ellis also brings to the Board high-growth company experience, media and technology experience and public company board experience.

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Name and Age as of January 27, 2012	Biographical Information and Director Qualifications and Experience
Patrick W. Gross Age 67	Mr. Gross has served as a director of LSI since February 2001. Mr. Gross has served as Chairman of The Lovell Group, a private business and technology advisory and investment firm, since October 2002. Mr. Gross is a founder of, and served as a principal executive officer from 1970 to September 2002 at, American Management Systems, Inc., a publicly traded information technology consulting, software development and systems integration firm. Mr. Gross is also a director of Capital One Financial Corporation, a publicly traded financial services company, Career Education Corporation, a publicly traded provider of post-secondary educational services, Rosetta Stone Inc., a provider of technology-based language learning solutions, Taleo Corporation, a publicly traded provider of talent management solutions, and Waste Management, Inc., a publicly traded provider of integrated waste services. Mr. Gross also currently serves on the boards of directors of various private companies. As the Chairman of a business and technology advisory and investment firm, Mr. Gross has senior leadership experience and media and technology experience. Mr. Gross also brings to the Board industry experience, high-growth company experience and public company board experience.
Franklin D. Kramer, Age 66	Mr. Kramer has served as a director of LSI since September 2001. Since February 2004, Mr. Kramer has been an independent consultant, with expertise in the areas of national security, international affairs and cyber security. From March 2001 to May 2005, Mr. Kramer was a lawyer with Shea & Gardner, now Goodwin Procter LLP. Mr. Kramer served as a director of Changing World Technologies, Inc., a privately held energy and environmental service company from February 2002 to April 2006; during this time he also served Changing World Technologies as Executive Vice President and then as a consultant. From March 1996 through February 2001, Mr. Kramer served as Assistant U.S. Secretary of Defense for International Security Affairs. Mr. Kramer is the principal editor of the book *Cyberpower and National Security*, and other publications. Mr. Kramer currently serves on the boards of directors and boards of advisors of various organizations and private companies. Since March 2007, Mr. Kramer has been an Operating Advisor for Pegasus Capital. As a former Assistant U.S. Secretary of Defense, Mr. Kramer has government experience. Mr. Kramer also brings to the Board senior leadership experience and legal experience.

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Name and Age as of January 27, 2012	Biographical Information and Director Qualifications and Experience
David A. Perdue, Jr. Age 62	Mr. Perdue has served as a director of LSI since December 2009. Mr. Perdue served as Chairman and Chief Executive Officer of Dollar General Corporation, a retail organization, from June 2003 until his retirement in July 2007, and as Chief Executive Officer of Dollar General Corporation from April 2003 until June 2003. From July 2002 to March 2003, Mr. Perdue served as Chairman and Chief Executive Officer of Pillowtex Corporation, a textile manufacturing company. Pillowtex filed for bankruptcy in July 2003 after emerging from a previous bankruptcy in May 2002. Prior to 2003, Mr. Perdue held senior management positions with Reebok International Ltd., Haggar Corporation and Sara Lee Corporation. Mr. Perdue has served on the board of directors of Alliant Energy Corporation, a public utility holding company, since 2001, and the board of directors of Jo-Ann Stores, Inc., a specialty retailer of fabrics and crafts, from 2008 to 2011. As a former Chairman and CEO of several retail and manufacturing companies, Mr. Perdue has senior leadership experience and experience in sales and marketing. Mr. Perdue also brings to the Board public company board experience.

EXECUTIVE OFFICERS AND MANAGEMENT

Below you can find information, including biographical information, about our executive officers (other than Mr. Angrick, whose biographical information appears above):

Name	Age	Position
Thomas B. Burton	53	President and Chief Operating Officer, DOD Surplus, LLC
Eric C. Dean	59	Chief Information Officer
James M. Rallo	46	Chief Financial Officer and Treasurer
G. Cayce Roy	47	Executive Vice President, President of the Asset Recovery division
James E. Williams	44	Vice President, General Counsel and Corporate Secretary

Thomas B. Burton has served as President and Chief Operating Officer of DOD Surplus, LLC, our wholly-owned subsidiary, since June 2001. Mr. Burton served as LSI's Director of Government Surplus from September 2000 through May 2001. Prior to joining our company in September 2000, Mr. Burton served as the Western Region Director of EG&G Technical Services, a government contractor, from August 1990 to September 2000. Mr. Burton holds a B.S. from Cameron University.

Eric C. Dean has served as our Chief Information Officer since October 2007. From 2005 to 2007, Mr. Dean served as Senior Vice President and CIO for Schaller Anderson, a subsidiary of Aetna Inc. and a provider of administrative and consulting services to managed health plans. From 2002 to 2005, Mr. Dean served as an independent consultant, providing advice and support to executives and management with responsibility for large information technology projects. Mr. Dean also previously served as CIO for Andersen Worldwide and as CIO of UAL Corporation, the parent of United Airlines. Mr. Dean holds a B.S. degree from Indiana University.

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James M. Rallo has served as Chief Financial Officer and Treasurer of LSI since February 2005. Prior to joining our company, Mr. Rallo served as Chief Financial Officer and Treasurer of Sleep Services of America, Inc. from July 1999 to February 2005. Mr. Rallo served as Vice President of Deutsche Banc Alex Brown's Healthcare Investment Banking Group from June 1995 to July 1999. Mr. Rallo holds an M.B.A. from the Smith School of Business at the University of Maryland and a B.S. from Washington and Lee University. Mr. Rallo is a Certified Public Accountant.

G. Cayce Roy has served as our Executive Vice President and President of the Asset Recovery division since August 2008. From 2000 to 2007, Mr. Roy held a number of management positions at Amazon.com, Inc., an online retailer. Most recently, from June 2004 to January 2007, Mr. Roy served as Vice President and General Manager of Amazon Services, LLC. Prior to that, from August 2001 to June 2004, Mr. Roy led Amazon's North American fulfillment operations. Prior to his employment at Amazon, Mr. Roy served with TNT Post Group in Europe. Mr. Roy holds a B.S. from Lehigh University.

James E. Williams has served as our Vice President, General Counsel and Corporate Secretary since November 2005. Prior to joining the Company, Mr. Williams was an independent consultant from March 2004 to November 2005. Mr. Williams served as Vice President, General Counsel and Secretary from October 2003 until February 2004 and as Senior Corporate Counsel from July 2002 to September 2003 for Acterna, a provider of telecommunications and test and measurement solutions that was acquired by JDS Uniphase Corporation in late 2005. From June 2000 to June 2002 he served as Assistant General Counsel for PathNet Telecommunications, formerly a wholesale telecommunications provider. Mr. Williams was a corporate associate at the law firms of Kirkland & Ellis LLP and Wilson Sonsini Goodrich & Rosati. He received his B.A. from Brown University and his J.D. from the University of Chicago Law School.

ITEM 2 Ratification of Independent Registered Public Accounting Firm

The Audit Committee has selected Ernst & Young LLP to serve as our independent registered public accounting firm for fiscal 2012.

We are asking our stockholders to ratify the selection of Ernst & Young LLP as our independent registered public accounting firm. Although ratification is not required by our bylaws or otherwise, we are submitting the selection of Ernst & Young LLP to our stockholders for ratification because we value our stockholders' views on the Company's independent registered public accounting firm and as a matter of good corporate practice. In the event that our stockholders fail to ratify the selection, the Audit Committee will review its future selection of the independent registered public accounting firm. Even if this selection is ratified, pursuant to the Sarbanes-Oxley Act of 2002, the Audit Committee is directly responsible for the appointment, compensation, retention and oversight of the work of our independent registered public accounting firm and may determine to change the firm selected at such time and based on such factors as it determines to be appropriate.

Representatives of Ernst & Young LLP are expected to be present at the Annual Meeting to answer appropriate questions. They also will have the opportunity to make a statement if they desire to do so.

Your Board of Directors unanimously recommends a vote FOR the ratification of Ernst & Young LLP as our independent registered public accounting firm for fiscal 2012.

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AUDITORS

Audit and Non-Audit Fees

The following table presents fees for professional audit services rendered by Ernst & Young LLP for the audit of the Company's annual financial statements for the fiscal years ended September 30, 2011, and September 30, 2010, and for fees billed for other services rendered by Ernst & Young LLP during those periods.

	Fiscal 2011	Fiscal 2010
Audit fees(1)	$ 749,000	$ 976,000
Audit-related fees(2)	$ 106,500	$ 87,200
Tax fees(3)	$ 213,500	$ 276,880
All other fees	0	$ 0
Total fees	$ 1,069,000	$ 1,340,080

(1) Audit fees consisted principally of work performed in connection with the audit of our consolidated financial statements and the review of our unaudited quarterly financial statements. This amount includes $14,000 and $65,000 in costs during fiscal 2011 and fiscal 2010, respectively, related to the statutory audits of our foreign subsidiaries and other related services.

(2) Audit-related fees consisted principally of fees incurred in connection with our employee benefit plans.

(3) Tax fees consisted principally of tax return preparation, planning and compliance work.

Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Registered Public Accounting Firm

Pursuant to its Charter, Audit Committee policy and applicable law, the Audit Committee pre-approves all audit and permissible non-audit services to be provided by our independent registered public accounting firm. The pre-approval policy applies to audit services, audit-related services, tax services and other services. The Audit Committee has delegated authority to the Chair of the Audit Committee in some cases to pre-approve the provision of services by our independent registered public accounting firm, which pre-approvals the Chair then communicates to the full Audit Committee. To avoid potential conflicts of interest, the law prohibits a publicly traded company from obtaining certain non-audit services from its independent registered public accounting firm. We obtain these services from other service providers as needed.

Audit Committee Report

Liquidity Services' management is responsible for Liquidity Services' financial statements, internal controls and financial reporting process. Liquidity Services' independent registered public accounting firm, Ernst & Young LLP, is responsible for auditing the financial statements and for expressing an opinion as to whether those audited financial statements fairly present, in all material respects, the financial position, results of operations and cash flows of the Company in conformity with U.S. generally accepted accounting principles. The Audit Committee was established for the purpose of representing and assisting the Board of Directors in overseeing Liquidity Services' accounting and financial reporting processes and audits of Liquidity Services' annual financial statements, including the integrity of Liquidity Services' financial statements, Liquidity Services' compliance with legal and regulatory authority requirements, the independent registered public accounting firm's qualifications and independence and the performance of Liquidity Services' independent registered public accounting firm. The members of the Audit Committee are not professional accountants or auditors, and their

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functions are not intended to duplicate or to certify the activities of management and the independent registered public accounting firm.

In this context, the Audit Committee has reviewed and discussed the audited financial statements with management. The Audit Committee has discussed with the independent registered public accounting firm the matters required to be discussed by Public Company Accounting Oversight Board ("PCAOB") Ethics and Independence Rule 3526, "Communication with Audit Committees Concerning Independence." The Audit Committee has received the written disclosures and the letter from the independent registered public accounting firm required by applicable requirements of the PCAOB regarding the independent registered public accounting firm's communications with the audit committee concerning independence, and has discussed with the independent registered public accounting firm its independence.

Based upon the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended September 30, 2011 for filing with the Securities and Exchange Commission. The Board of Directors approved including the audited financial statements in the Company's Annual Report.

The Audit Committee:
George H. Ellis, Chair
Patrick W. Gross
Franklin D. Kramer

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

ITEM 3 Approval of an Advisory Resolution on Executive Compensation

We are asking stockholders to approve an advisory resolution on the Company's executive compensation as reported in this proxy statement. As described below in the "Compensation Discussion and Analysis" section of this proxy statement, the Compensation Committee's goals in setting executive compensation are to support the attainment of our short- and long-term financial and strategic objectives, reward executives for continuous growth in earnings and stockholder value, and align executives' interests with those of our stockholders. To achieve these goals, our executive compensation structure emphasizes performance-based compensation, including annual incentive compensation and stock-based awards.

We urge stockholders to read the "Compensation Discussion and Analysis," beginning on page 33 of this proxy statement, which describes in more detail how our executive compensation policies and procedures operate and are designed to achieve our compensation objectives, as well as the Summary Compensation Table and other related compensation tables and narrative, appearing on pages 48 through 63, which provide detailed information on the compensation of our named executive officers. The Board of Directors and the Compensation Committee believe that the policies and procedures articulated in the "Compensation Discussion and Analysis" are effective in achieving our goals and that the compensation of our named executive officers reported in this proxy statement reflects and supports these compensation policies and procedures.

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In accordance with Section 14A of the Exchange Act, and as a matter of good corporate governance, stockholders will be asked at the Annual Meeting to approve the following advisory resolution:

> RESOLVED, that the stockholders of Liquidity Services, Inc. (the "Company") approve, on an advisory basis, the compensation of the Company's named executive officers described in the Compensation Discussion and Analysis and disclosed in the Summary Compensation Table and the related compensation tables, notes and narrative in the Proxy Statement for the Company's 2012 Annual Meeting of Stockholders.

This advisory resolution, commonly referred to as a "say-on-pay" resolution, is non-binding on the Board of Directors. Although non-binding, the Board and the Compensation Committee will review and consider the voting results when making future decisions regarding our executive compensation program.

The Board of Directors has adopted a policy providing for annual "say-on-pay" advisory votes. Unless the Board of Directors modifies its policy on the frequency of holding "say-on-pay" advisory votes, the next "say-on-pay" advisory vote will occur in 2013.

Your Board of Directors unanimously recommends a vote FOR the advisory resolution on executive compensation.

EXECUTIVE COMPENSATION

Compensation Discussion & Analysis

This section describes our compensation strategy, programs and practices for the executive officers listed in the Summary Compensation Table that follows this discussion. In this proxy statement, we refer to these individuals as our named executive officers.

Executive Summary

Our executive compensation philosophy and the elements of our executive compensation program with regard to fiscal 2011 are summarized below:

> The main objectives of our executive compensation program are to support the attainment of our short- and long-term financial and strategic objectives, reward executives for continuous growth in earnings and stockholder value, and align executives' interests with those of our stockholders.
>
> Our executive compensation program emphasizes performance-based compensation, including annual incentive compensation and stock-based awards, including stock options and restricted stock.
>
> Our Compensation Committee is responsible for evaluating and setting the compensation levels of our named executive officers. In setting compensation levels for executives, the Committee solicits the input and recommendations of our Chairman and CEO. The Compensation Committee periodically engages an independent compensation consultant to conduct market reviews of our competitive market for executive talent. The Committee engaged Towers Watson to conduct a review of new market data for use in determining fiscal 2011 compensation levels.
>
> Compensation for our named executive officers during fiscal 2011 generally was higher than target levels as a result of the Company's and our named executive officers' strong performance. The Company's fiscal 2011 performance led to above-target annual incentive compensation for most of our named executive officers because we exceeded established target goals for company financial performance under our annual incentive bonus plan. As discussed in more detail below,

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we did not achieve all of our target performance goals for the Asset Recovery marketplace. Our named executive officers received bonuses ranging from 82% to 188% of their respective targets.

To support the retention and incentive purposes of our executive compensation program, in fiscal 2011 each of our named executive officers received stock option, time-based restricted stock awards and performance-based restricted stock awards.

General Compensation Philosophy

Liquidity Services' executive compensation programs are designed to support the attainment of our short- and long-term financial and strategic objectives, reward executives for continuous growth in earnings and stockholder value, and align executives' interests with those of our stockholders. The goal of Liquidity Services' compensation programs is to attract, retain and motivate key executives, and to encourage a long-term commitment to Liquidity Services. To achieve these objectives, the Compensation Committee uses a variety of compensation elements, including: base salary, annual cash incentive compensation, long-term incentive compensation and certain other compensation and benefits.

Factors Considered When Determining Compensation. The Compensation Committee seeks to set executive compensation at competitive levels that the Compensation Committee considers appropriate for a company of our size and stage of growth. On an annual basis, the Compensation Committee determines and approves the total compensation level of each of our named executive officers based on its evaluation of external market conditions, Company performance and each named executive officer's individual performance relative to pre-established performance goals and objectives. The Compensation Committee also considers each executive's level of experience, unique skills and abilities critical to the Company, and the executive's tenure, position and responsibilities with the Company. The Compensation Committee considers recommendations from the Chairman and CEO regarding levels for base salary, annual incentive awards and long-term incentive awards for named executive officers. The Chairman and CEO annually provides to the Compensation Committee historical and prospective breakdowns of the total direct compensation components for each named executive officer. The Chairman and CEO also recommends financial and non-financial performance goals for each named executive officer under the annual cash incentive compensation plan.

Market Data. Periodically, the Compensation Committee has engaged a leading industry compensation consultant to assess the market competitiveness of our executive compensation program so that our program attracts and retains executive talent essential to achieve our business plans. During fiscal 2010, the Compensation Committee engaged Towers Watson to assess the market competitiveness of our executive compensation program for purposes of evaluating and setting fiscal 2011 executive compensation. The scope of Towers Watson's work included a review of the Company's executive compensation practices, assistance with development of an appropriate peer group, and presentation to the Compensation Committee of a report regarding executive compensation trends for similarly sized companies and the market competitiveness of our executive compensation program. During fiscal 2010, Towers Watson was engaged directly by the Compensation Committee and did not provide any services to the Company other than the executive and director compensation consulting services described above.

To assist the Compensation Committee in its market review for fiscal 2011, the Committee's compensation consultant prepared an analysis of the market competitiveness of the aggregate value of total direct compensation (base salary, annual incentive bonus and long-term incentives) as well as the market competitiveness of each element of compensation for each named executive officer. The market review was based upon two different sources of compensation data provided by Towers Watson published surveys and a selected peer group of e-commerce companies. The survey sources relied upon for the market review were national surveys and contained compensation data for both high-technology sector companies as well as similarly sized general industry companies. These survey sources were the

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2010 Towers Watson CDB Executive Compensation Database; the 2010 Towers Watson Long-term Incentive Plan Report and the 2010/2011 Towers Watson Industry Report on Top Management Compensation. The survey data was used as a market reference to assess how the Company's compensation practices for top executives compare to market practices and to confirm that the overall compensation mix is reasonably aligned with the marketplace.

The peer companies utilized in Towers Watson's review were approved by the Compensation Committee and were the same as the Company's fiscal 2010 peer group. The peer group data was based on the then most recent publicly available information. In selecting the companies for inclusion in the peer group, the Compensation Committee considered revenue, market capitalization, number of employees, geographic area, and companies with an internet presence or technology focus. The peer group included companies with revenues ranging from $76 million to $1.00 billion. The peer group companies for the fiscal 2011 review were:

GSI Commerce Inc.	Deltek Inc.
1-800-FLOWERS.COM Inc.	TeleCommunication Systems Inc.

(2) the fair market value of the principal domestic property sold and leased, subject to credits for certain voluntary retirements of funded debt.

Exempted Indebtedness

Schering-Plough or any restricted subsidiary may create or assume liens or enter into sale and leaseback transactions not otherwise permitted under the provisions regarding limitations on liens and sale and leaseback transactions described above, so long as at that time and immediately after giving effect to the lien or sale and leaseback transaction, the sum of Schering-Plough s and its consolidated subsidiaries aggregate outstanding indebtedness incurred after the date of the indenture and secured by the liens relating to principal properties, that are not otherwise permitted, plus that related to sale and leaseback transactions, that are not otherwise permitted, does not exceed 10% of consolidated net tangible assets.

Certain Definitions

The following are the meanings of terms that are important in understanding the covenants previously described:

attributable debt means the present value (discounted at a specified rate each year to be determined by Schering-Plough to be appropriate and consistent with U.S. generally accepted accounting principles) of the obligations for rental payments required to be paid during the remaining term of any lease of more than

12 months.

consolidated net tangible assets means the total assets of Schering-Plough and its consolidated subsidiaries as shown on or reflected in our most recent quarterly or annual, as applicable, balance sheet, less (1) all current liabilities, excluding current liabilities which could

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be classified as long-term debt under U.S. generally accepted accounting principles and current liabilities which are by their terms extendible or renewable at the obligor s option to a time more than 12 months after the time as of which the amount of current liabilities is being computed; (2) advances to entities accounted for on the equity method of accounting; and (3) intangible assets. In this context, intangible assets means the aggregate value, net of any applicable reserves, as shown on or reflected in Schering-Plough s balance sheet, of (a) all trade names, trademarks, licenses, patents, copyrights and goodwill; (b) organizational and development costs; (c) deferred charges, other than prepaid items such as insurance, taxes, interest, commissions, rents and similar items and tangible assets being amortized; and (d) unamortized debt discount and expense, less unamortized premium.

principal property means any manufacturing facility having a gross book value in excess of 1% of consolidated net tangible assets that Schering-Plough or any restricted subsidiary owns and located within the United States, excluding its territories and possessions and Puerto Rico, other than any facility or portion of a facility which Schering-Plough s board of directors reasonably determines is not material to the business conducted by Schering-Plough and its subsidiaries as a whole.

restricted subsidiary means any subsidiary (1) of which substantially all of the property of is located, and substantially all of the business is carried on, within the United States, excluding its territories and possessions and Puerto Rico; and (2) which owns or operates one or more principal properties (however, restricted subsidiary does not include subsidiaries primarily engaged in the business of a finance or insurance company and their branches).

subsidiary means each corporation of which more than 50% of the outstanding voting stock is owned, directly or indirectly, by Schering-Plough or one or more of its subsidiaries.

Book-Entry System

DTC will act as securities depository for the Notes. One or more fully-registered note certificates will be issued for the Notes, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC has informed Schering-Plough that DTC is:

a limited-purpose trust company organized under the New York Banking Law;

a banking organization within the meaning of the New York Banking Law;

a member of the Federal Reserve System;

a clearing corporation within the meaning of the New York Uniform Commercial Code; and

a clearing agency registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended.

DTC holds securities that its participants (Direct Participants) deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Direct Participants accounts, which eliminates the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by The New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities

Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (Indirect Participants). The rules applicable to DTC and its Direct and Indirect Participants are on file with the SEC.

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Purchases of Notes under the DTC system must be made by or through Direct Participants, which receive a credit for the Notes on DTC s records. The ownership interest of each actual purchaser of each note (Beneficial Owner) is in turn to be recorded on the Direct and Indirect Participants records. Beneficial Owners will not receive written confirmations from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct Participant or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Notes are to be accomplished by entries made on the books of Direct Participants and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Notes except in the event that use of the book-entry system for the Notes is discontinued. As a result, the ability of a person having a beneficial interest in the Notes to pledge such interest to persons or entities that do not participate in the DTC system, or to otherwise take actions with respect to such interest, may be affected by the lack of a physical certificate evidencing such interest. In addition, the laws of some states require that certain persons take physical delivery in definitive form of securities that they own and that security interests in negotiable instruments can only be perfected by delivery of certificates representing the instruments. Consequently, the ability to transfer Notes evidenced by the global Notes will be limited to such extent.

To facilitate subsequent transfers, all Notes deposited by Direct Participants with DTC are registered in the name of DTC s partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Notes with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Notes; DTC s records reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Direct Participants and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Notes. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co. s consenting or voting rights to those Direct Participants to whose accounts the Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal, interest and premium, if any, on the Notes will be made by Schering-Plough to the trustee and from the trustee to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC s practice is to credit Direct Participants accounts, upon DTC s receipt of funds and corresponding detail information from Schering-Plough or the trustee on the payable date in accordance with their respective holdings shown on DTC s records. Payments by Direct Participants and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in street name and will be the responsibility of such Participant and not of DTC, the trustee or Schering-Plough, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium (if any) or interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is Schering-Plough s responsibility or the trustee s, and disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct Participants and Indirect Participants.

Although DTC has agreed to the foregoing procedures in order to facilitate transfers of securities among Participants of DTC, it is under no obligation to perform or continue to perform such

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procedures, and DTC may discontinue providing its services as securities depository with respect to the Notes at any time by giving reasonable notice to Schering-Plough. Under such circumstances, in the event that a successor securities depository is not obtained, note certificates are required to be printed and delivered. In addition, note certificates will be printed and delivered if Schering-Plough decides to discontinue use of the system of book-entry transfers through DTC (a successor securities depository) or if an event of default occurs with respect to the Notes and has not been cured or waived. In that event, note certificates will be printed and delivered. See Description of Debt Securities Global Securities in the accompanying prospectus.

Neither Schering-Plough nor the trustee will have any responsibility or obligation to participants in the DTC system or the persons for whom they act as nominees with respect to the accuracy of the records of DTC, its nominee or any Direct Participant or Indirect Participant with respect to any ownership interest in the Notes, or with respect to payments to or providing of notice for the Direct Participants, the Indirect Participants or the beneficial owners of the Notes.

The information in this section concerning DTC and DTC s book-entry system has been obtained from sources that Schering-Plough believes to be reliable. None of Schering-Plough, the trustee, the underwriters, dealers or agents are responsible for the accuracy or completeness of this information.

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CERTAIN UNITED STATES FEDERAL INCOME TAX CONSEQUENCES

The following is a summary of certain U.S. federal income tax consequences relevant to the purchase, ownership, and disposition of the Notes. The following summary is based upon current provisions of the Internal Revenue Code of 1986, as amended, referred to as the Code, Treasury Regulations and judicial and administrative authority, all of which are subject to change, possibly with retroactive effect. State, local and foreign tax consequences are not summarized, nor are tax consequences to special classes of investors including, but not limited to, tax-exempt organizations, insurance companies, banks or other financial institutions, partnerships or other entities classified as partnerships for U.S. federal income tax purposes, dealers in securities, persons liable for the alternative minimum tax, traders in securities that elect to use a mark-to-market method of accounting for their securities holdings, and persons that will hold the Notes as a position in a hedging transaction, straddle , conversion transaction or other risk reduction transaction. Tax consequences may vary depending upon the particular status of an investor. The summary is limited to taxpayers who will hold the Notes as capital assets (generally, held for investment) and who purchase the Notes in the initial offering at the initial offering price. Each potential investor should consult with its own tax adviser as to the federal, state, local, foreign and any other tax consequences of the purchase, ownership, and disposition of the Notes.

If an entity treated as a partnership for U.S. federal income tax purposes holds the Notes, the U.S. federal income tax treatment of the partnership and its partners will generally depend on the status of the partners and the activities of the partnership and its partners. A partner in a partnership holding the Notes should consult its own tax advisor with regard to the U.S. federal income tax treatment of an investment therein.

U.S. Holders

The discussion in this section is addressed to a holder of the Notes that is a U.S. holder for federal income tax purposes. You are a U.S. holder if you are a beneficial owner of the Notes that is for U.S. federal income tax purposes (i) a citizen or individual resident of the United States; (ii) a corporation created or organized in the United States or under the laws of the United States or of any State (or the District of Columbia); (iii) an estate whose income is subject to United States federal income tax regardless of its source; or (iv) a trust if (x) a United States court can exercise primary supervision over the trust s administration and one or more United States persons are authorized to control all substantial decisions of the trust or (y) the trust has validly elected to be treated as a U.S. domestic trust.

Payments of Interest

Interest on the Notes is taxable to a U.S. holder as ordinary interest income at the time it is received or accrued, depending on the U.S. holder s method of accounting for U.S. federal income tax purposes.

Dispositions

A U.S. holder will generally recognize capital gain or loss on a sale or exchange of the Notes equal to the difference between the amount realized (less any accrued interest not previously included in the U.S. holder s income, which will be taxable as ordinary income) upon the sale or exchange and the U.S. holder s adjusted tax basis in the Notes sold or exchanged. Such capital gain or loss will be long-term capital gain or loss if the U.S. holder s holding period for the Notes sold or exchanged is more than one year. Long-term capital gains of noncorporate taxpayers are generally taxed at a lower maximum marginal tax rate than the maximum marginal tax rate applicable to ordinary income. The deductibility of net capital losses by individuals and corporations is subject to limitations.

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Information Reporting and Backup Withholding on U.S. Holders

Certain U.S. holders may be subject to backup withholding with respect to the payment of interest on the Notes and to certain payments of proceeds on the sale or redemption of the Notes unless such U.S. holders provide proof of an applicable exemption or a correct taxpayer identification number, and otherwise comply with applicable requirements of the backup withholding rules.

Any amount withheld under the backup withholding rules from a payment to a U.S. holder is allowable as a credit against such U.S. holder s U.S. federal income tax, which may entitle the U.S. holder to a refund, provided that the U.S. holder timely provides the required information to the IRS. Moreover, certain penalties may be imposed by the IRS on a U.S. holder who is required to furnish information but does not do so in the proper manner. U.S. holders are urged to consult their own tax advisors regarding the application of backup withholding in their particular circumstances and the availability of and procedure for obtaining an exemption from backup withholding under current Treasury Regulations.

Non-U.S. Holders

The discussion in this section is addressed to holders of the Notes that are non-U.S. holders . You are a non-U.S. holder if you are not a U.S. holder or an entity treated as a partnership for U.S. federal income tax purposes.

Payments of Interest

No withholding of U.S. federal income tax will apply to a payment of interest on a Note to a non-U.S. holder under the Portfolio Interest Exemption, provided that:

- such payment is not effectively connected with the non-U.S. holder s conduct of a trade or business in the United States (or, if certain income tax treaties apply, such payment is not attributable to a permanent establishment maintained by the non-U.S. holder within the United States);
- the non-U.S. holder does not actually or constructively own 10 percent or more of the total combined voting power of all classes of Schering-Plough stock entitled to vote;
- the non-U.S. holder is not a controlled foreign corporation that is related directly or constructively to Schering-Plough through stock ownership;
- the non-U.S. holder is not a bank that acquired the Notes in consideration for an extension of credit made pursuant to a loan agreement entered into in the ordinary course of its trade or business; and
- the non-U.S. holder provides the withholding agent, in accordance with specified procedures, with a statement to the effect that such holder is not a U.S. person (generally through the provision of a properly executed IRS Form W-8BEN or other applicable form).

If a non-U.S. holder cannot satisfy the requirements of the Portfolio Interest Exemption described above, interest paid to a non-U.S. holder with respect to the Notes will be subject to a 30% U.S. withholding tax, or such lower rate as may be specified by an applicable income tax treaty, unless the interest is (i) effectively connected with a trade or business carried on by the non-U.S. holder within the United States (and the non-U.S. holder provides the payor with a Form W-8ECI (or other applicable form)) and (ii) if an income tax treaty applies, attributable to a U.S. permanent establishment or, in the case of an individual, a fixed base maintained by the non-U.S. holder. Interest effectively connected with such trade or business, and, if an income tax treaty applies, attributable to such permanent

establishment, will generally be subject to U.S. federal income tax on a net basis at applicable individual or corporate rates. A non-U.S. holder that is a corporation may be subject to a branch profits tax at a 30% rate (or such lower rate as may be specified by an applicable income tax treaty) on the deemed repatriation from the United States of its

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effectively connected earnings and profits , subject to certain adjustments. Under applicable Treasury Regulations, a non-U.S. holder (including, in certain cases of non-U.S. holders that are entities, the owner or owners of such entities) will be required to satisfy certain certification requirements in order to claim a reduced rate of withholding pursuant to an applicable income tax treaty.

Dispositions

A non-U.S. holder generally will not be subject to U.S. federal income or withholding tax on gain realized on the sale or exchange of the Notes so long as:

the gain is not effectively connected with a U.S. trade or business of the non-U.S. holder (or, if a tax treaty applies, the gain is not attributable to a U.S. permanent establishment or, in the case of an individual, a fixed base maintained by such non-U.S. holder); and

in the case of a non-resident alien individual, such non-U.S. holder is not present in the United States for 183 or more days in the taxable year of the sale or disposition and certain other conditions are met.

Information Reporting and Backup Withholding on Non-U.S. Holders

Payment of interest, and the tax withheld with respect thereto, is subject to information reporting requirements. These information reporting requirements apply regardless of whether withholding was reduced or eliminated by an applicable income tax treaty or withholding was not required because the interest was effectively connected with a trade or business in the United States conducted by the non-U.S. holder. Copies of the information returns reporting such interest and withholding may also be made available under the provisions of an applicable income tax treaty or agreement to the tax authorities in the country in which the non-U.S. holder resides. U.S. backup withholding will generally apply on payments of interest to a non-U.S. holder unless such non-U.S. holder furnishes to the payor a Form W-8BEN (or other applicable form), or otherwise establishes an exemption.

Payment by a U.S. office of a broker of the proceeds of a sale of the Notes is subject to both backup withholding and information reporting unless the non-U.S. holder, or beneficial owner thereof, as applicable, certifies that it is a non-U.S. holder on Form W-8BEN (or other applicable form), or otherwise establishes an exemption. Subject to exceptions, backup withholding and information reporting generally will not apply to a payment of proceeds from the sale of the Notes if such sale is effected through a foreign office of a broker. Non-U.S. holders are urged to consult their own tax advisors regarding the application of backup withholding in their particular circumstances and the availability of and procedure for obtaining an exemption from backup withholding under current Treasury Regulations.

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UNDERWRITING

Schering-Plough and the underwriters for the offering named below have entered into an underwriting agreement with respect to the Notes being offered. Subject to certain conditions, each underwriter has severally agreed to purchase the principal amount of each series of Notes indicated in the following table. Goldman, Sachs & Co. is acting as global coordinator, and BNP Paribas Securities Corp., Credit Suisse Securities (USA) LLC and J.P. Morgan Securities Inc. are acting as joint bookrunners and together with Goldman, Sachs & Co. are the representatives of the underwriters.

Underwriters	Principal Amount of 2017 Notes	Principal Amount of 2037 Notes
Goldman, Sachs & Co.	$ 200,000,000	$ 200,000,000
BNP Paribas Securities Corp.	$ 200,000,000	$ 200,000,000
Credit Suisse Securities (USA) LLC	$ 200,000,000	$ 200,000,000
J.P. Morgan Securities Inc.	$ 200,000,000	$ 200,000,000
Banc of America Securities LLC	$ 20,000,000	$ 20,000,000
Bear, Stearns & Co. Inc.	$ 20,000,000	$ 20,000,000
Citigroup Global Markets Inc.	$ 20,000,000	$ 20,000,000
Daiwa Securities America Inc.	$ 20,000,000	$ 20,000,000
ING Financial Markets LLC	$ 20,000,000	$ 20,000,000
Morgan Stanley & Co. Incorporated	$ 20,000,000	$ 20,000,000
Santander Investment Securities Inc.	$ 20,000,000	$ 20,000,000
The Williams Capital Group, L.P.	$ 15,000,000	$ 15,000,000
ABN AMRO Rothschild LLC	$ 7,500,000	$ 7,500,000
Banca IMI S.p.A.	$ 7,500,000	$ 7,500,000
BBVA Securities Inc.	$ 7,500,000	$ 7,500,000
BNY Capital Markets, Inc.	$ 7,500,000	$ 7,500,000
Mizuho Securities USA Inc.	$ 7,500,000	$ 7,500,000
Utendahl Capital Partners, L.P.	$ 7,500,000	$ 7,500,000
Total	$ 1,000,000,000	$ 1,000,000,000

The underwriters are committed to take and pay for all of the Notes being offered, if any are taken.

Notes sold by the underwriters to the public will initially be offered at the initial public offering prices set forth on the cover of this prospectus supplement. Any Notes sold by the underwriters to securities dealers may be sold at a discount from the initial public offering prices of up to 0.30% of the principal amount of the 2017 Notes and up to 0.50% of the principal amount of the 2037 Notes. Any such securities dealers may resell any Notes purchased from the underwriters to certain other brokers or dealers at a discount from the initial public offering prices of up to 0.25% of the principal amount of the 2017 Notes and up to 0.25% of the principal amount of the 2037 Notes. If all the Notes are not sold at the initial offering price, the underwriters may change the offering price and the other selling terms. The offering of the Notes by the underwriters is subject to receipt and acceptance and subject to the underwriters right to reject any order in whole or in part.

The Notes are a new issue of securities with no established trading market. Schering-Plough has been advised by the underwriters that the underwriters intend to make a market in the Notes but are not obligated to do so and may

discontinue market making at any time without notice. No assurance can be given as to the liquidity of the trading market for the Notes.

In connection with the offering, the underwriters may purchase and sell Notes in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the underwriters of a greater number of Notes than they are required to purchase in the offering. Stabilizing transactions consist of certain

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bids or purchases made for the purpose of preventing or retarding a decline in the market price of the Notes while the offering is in progress.

The underwriters also may impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased Notes sold by or for the account of such underwriter in stabilizing or short covering transactions.

These activities by the underwriters, as well as other purchases by the underwriters for their own accounts, may stabilize, maintain or otherwise affect the market price of the Notes. As a result, the price of the Notes may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the underwriters at any time. These transactions may be effected in the over-the-counter market or otherwise.

Schering-Plough estimates that its share of the total expenses of the offering, excluding underwriting discounts and commissions, will be approximately $1,000,000.

Schering-Plough has agreed to indemnify the several underwriters against certain liabilities, including liabilities under the Securities Act of 1933.

Goldman, Sachs & Co. is currently acting as financial advisor to Schering-Plough, for which they are paid usual and customary fees. Bank of America, N.A., an affiliate of Banc of America Securities LLC, is the administrative agent, Banc of America Securities LLC and Citigroup Global Markets Inc. are the joint lead arrangers and joint book managers, and BNP Paribas Securities Corp. is the syndication agent under Schering-Plough s $2 billion credit agreement entered into on August 9, 2007. Certain of the other underwriters or their affiliates are also lenders under the credit agreement. Additionally, Goldman, Sachs & Co., BNP Paribas Securities Corp., Credit Suisse Securities (USA) LLC, J.P. Morgan Securities Inc., Banc of America Securities LLC, Bear, Stearns & Co. Inc., Citigroup Global Markets Inc., and Morgan Stanley & Co. Incorporated, or their respective affiliates, have committed to act as lenders under Schering-Plough s 11 billion bridge facility.

In addition, the underwriters and their affiliates have, from time to time, performed, and may in the future perform, various financial advisory, commercial banking, investment banking or underwriting services for Schering-Plough, its subsidiaries or its affiliates for which they received or will receive customary fees and expenses.

Daiwa Securities America Inc. (DSA) has entered into an agreement with SMBC Securities, Inc. (SMBCSI) pursuant to which SMBCSI provides certain advisory and/or other services to DSA, including services with respect to this offering. In return for the provision of such services by SMBCSI to DSA, DSA will pay to SMBCSI a mutually agreed-upon fee.

The Notes will be offered in the United States through the underwriters either directly or through their respective U.S. broker-dealer affiliates or agents.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a Relevant Member State), each underwriter has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the Relevant Implementation Date) it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Prospectus to the public in that Relevant Member State other than:

(a) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

(b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than 43,000,000 and (3) an

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annual net turnover of more than 50,000,000, as shown in its last annual or consolidated accounts;

(c) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the representatives for any such offer; or

(d) in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an offer of notes to the public in relation to any notes in any Relevant Member State means the communication in any form by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Belgium

Each underwriter has represented and agreed that it will not sell the Notes to any person qualifying as a consumer within the meaning of Article 1.7° of the Belgian law of 14 July 1991 on consumer protection and trade practices unless such sale is made in compliance with this law and its implementing regulation.

United Kingdom

Each underwriter has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the FSMA)) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Ireland

Each underwriter has agreed that:

(a) it will not underwrite the issue of, or place the Notes, otherwise than in conformity with the provisions of the Irish Investment Intermediaries Act 1995 as amended, including, without limitation, Sections 9 and 23 thereof and any codes of conduct rules made under Section 37 thereof and the provisions of the Investor Compensation Act 1998; and

(b) it will not underwrite the issue of, or place, the Notes, otherwise than in conformity with the provisions of the Irish Central Bank Acts 1942-1999, as amended, and any codes of conduct rules made under Section 117(1) thereof; and

(c) it will not underwrite the issue of, place or otherwise act in Ireland in respect of the Notes, otherwise than in conformity with the provisions of the Irish Market Abuse (Directive 2003/6/EC) Regulations 2005 and any rules issued by the Financial Regulator pursuant thereto.

Italy

The offering of the Notes has not been registered with CONSOB (the Italian Securities Exchange Commission) pursuant to Italian securities legislation and, accordingly, no Notes may be

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offered, sold or delivered, nor may copies of this document or of any other document relating to the Notes be distributed in the Republic of Italy except: (i) to qualified investors (*investitori qualificati*), as defined in Article 100 of Legislative Decree No. 58 of 24 February 1998, as amended and Article 31, second paragraph of CONSOB Regulation No. 11522 of 1 July 1998, as amended; and (ii) in circumstances which are exempt from public offer rules pursuant to Article 100 of Legislative Decree no. 58 of 24 February 1998, as amended (the Financial Services Act) and Article 33, first paragraph, of CONSOB Regulation No. 11971 of 14 May 1999, as amended. Any offer, sale or delivery of the Notes or distribution of copies of this document or any other document relating to the Notes in the Republic of Italy under (i) or (ii) above must be: (a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act and Legislative Decree No. 385 of 1 September 1993, as amended (the Banking Act); (b) in compliance with Article 129 of the Banking Act and the implementing guidelines of the Bank of Italy, as amended from time to time, pursuant to which the Bank of Italy may request information on the issue or the offer of securities in the Republic of Italy; and (c) in compliance with any other applicable laws and regulations.

Please note that in accordance with Article 100-bis of the Financial Services Act, where no exemption from the rules on solicitation of investments applies under (i) and (ii) above, the subsequent distribution of the Notes on the secondary market in Italy must be made in compliance with the public offer and the prospectus requirement rules provided under the Financial Services Act and Regulation No. 11971. Failure to comply with such rules may result in the sale of such Notes being declared null and void and in the liability of the intermediary transferring the financial instruments for any damages suffered by the investors.

France

This document is not being distributed in the context of a public offering in France within the meaning of Article L.411-1 of the *Code monétaire et financier*, and has therefore not been submitted to the *Autorité des Marchés Financiers* for prior approval and clearance procedure.

Each of the underwriters represents and agrees that it has not offered or sold and will not offer or sell, directly or indirectly, the Notes to the public in France, and has not distributed or caused to be distributed and will not distribute, or cause to be distributed to the public in France, this prospectus supplement, the accompanying prospectus and any other document or material in connection with the offer or sale, or invitation or subscription or purchase, of the Notes, and that such offers, sales and distributions have been and will be made in France only to (a) providers of investment services relating to portfolio management for the account of third parties, and/or (b) qualified investors (*investisseurs qualifiés*) acting for their own account (other than individuals), all as defined in, and in accordance with, Articles L. 411-1, L. 411-2 and D. 411-1 of the French *Code monétaire et financier*.

The Notes may be resold directly or indirectly only in compliance with Articles L. 411-1, L. 411-2, L. 412-1 and L. 621-8 to L. 621-8-3 of the French *Code monétaire et financier*.

Sweden

Each underwriter has represented and agreed that when an offer of notes to the public is made in Sweden, the guidelines enumerated for the European Economic Area apply, except that, with respect to paragraph (b), offers may only be made to legal entities who, for each of the last two financial years, fulfilled at least two of the following conditions: (1) an average of at least 250 employees, (2) a total balance sheet of more than 43,000,000 and (3) a net turnover of more than 50,000,000, as shown in its profit and loss account.

Switzerland

No public solicitation of investors or other offering or advertising activities in respect of the Notes can be carried out in Switzerland. The Notes may only be offered by way of private placement to

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banks, securities dealers or other regulated entities, to institutional investors with a professional treasury management, or to a limited number of other investors not exceeding 20.

Hong Kong

The Notes may not be offered or sold by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), or (ii) to professional investors within the meaning of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a prospectus within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), and no advertisement, invitation or document relating to the Notes may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

Japan

The securities have not been and will not be registered under the Securities and Exchange Law of Japan (the Securities and Exchange Law) and each underwriter has agreed that it will not offer or sell any securities, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

Singapore

Each underwriter has acknowledged that this prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, the underwriters have represented and agreed that they have not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell the Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and have not circulated or distributed, nor will they circulate or distribute, this prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the SFA), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

VALIDITY OF SECURITIES

Allen & Overy LLP, New York, New York and McCarter & English LLP are passing upon the validity of the Notes for Schering-Plough. In addition, Susan Ellen Wolf, Esq., the Corporate Secretary, is passing upon certain matters related to this offering. Ms. Wolf is an officer of Schering-Plough and beneficially owns common shares and holds options to purchase additional common shares. Ms. Wolf is eligible to participate in the Schering-Plough Corporation 2006 Stock Incentive Plan and the Schering-Plough Employees Saving Plan and may receive benefits under those plans. Shearman & Sterling LLP, New York, New York, is passing upon certain legal matters for the underwriters.

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EXPERTS

The consolidated financial statements, the related financial statement schedule, and management s report on the effectiveness of internal control over financial reporting incorporated in this prospectus supplement and the accompanying prospectus by reference from Schering-Plough s 2006 10-K have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their reports, which are incorporated herein by reference (which reports (1) express an unqualified opinion on the consolidated financial statements and financial statement schedule and include an explanatory paragraph regarding Schering-Plough s adoption of Statement of Financial Accounting Standards (SFAS) No. 123 (Revised 2004), Share-Based Payment, and SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans; (2) express an unqualified opinion on management s assessment regarding the effectiveness of internal control over financial reporting; and (3) express an unqualified opinion on the effectiveness of internal control over financial reporting), and have been so incorporated in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

With respect to the unaudited interim financial information for the periods ended March 31, 2007 and 2006, and June 30, 2007 and 2006, which is incorporated herein by reference, Deloitte & Touche LLP, an independent registered public accounting firm, have applied limited procedures in accordance with the standards of the Public Company Accounting Oversight Board (United States) for a review of such information. However, as stated in their reports included in Schering-Plough s first and second quarter 2007 10-Q, and incorporated by reference herein, they did not audit and they do not express an opinion on that interim financial information. Accordingly, the degree of reliance on their reports on such information should be restricted in light of the limited nature of the review procedures applied. Deloitte & Touche LLP are not subject to the liability provisions of Section 11 of the Securities Act of 1933 for their reports on the unaudited interim financial information because those reports are not reports or a part of the registration statement prepared or certified by an accountant within the meaning of Sections 7 and 11 of the Securities Act.

WHERE YOU CAN FIND MORE INFORMATION

Schering-Plough files reports, proxy statements and other information with the SEC. You may read and copy any document Schering-Plough files at the SEC s public reference room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. In addition, the SEC maintains a website that contains reports, proxy statements and other information that Schering-Plough electronically files. The address of the SEC s website is *http://www.sec.gov*. You may also inspect Schering-Plough s SEC reports and other information at the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

INCORPORATION OF INFORMATION SCHERING-PLOUGH FILES WITH THE SEC

The SEC allows Schering-Plough to incorporate by reference the information it files with them, which means:

- incorporated documents are considered part of this prospectus;
- Schering-Plough can disclose important information to you by referring you to those documents; and
- information that Schering-Plough files with the SEC will automatically update and supersede this incorporated information.

Schering-Plough incorporates by reference the documents listed below, which were filed with the SEC under the Securities Exchange Act of 1934, as amended, referred to as the Exchange Act, (excluding any portions of such documents that have been furnished but not filed for purposes of the Exchange Act):

its 2006 10-K filed with the SEC on February 28, 2007;

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its first quarter 2007 10-Q filed with the SEC on April 27, 2007;

its second quarter 2007 10-Q filed with the SEC on July 27, 2007;

its 8-K filed with the SEC on January 29, 2007;

its 8-K filed with the SEC on March 16, 2007;

its 8-K filed with the SEC on April 19, 2007;

its 8-K filed with the SEC on June 28, 2007;

its 8-K filed with the SEC on July 11, 2007;

its 8-K filed with the SEC on July 23, 2007;

its 8-K filed with the SEC on August 2, 2007;

its 8-K filed with the SEC on August 13, 2007;

its 8-K filed with the SEC on September 10, 2007;

the following sections of its Proxy Statement for the 2007 Annual Meeting of Shareholders on Schedule 14A filed with the SEC on April 20, 2007: Proposal One: Elect Eleven Directors for a One-Year Term, Section 16(a) Beneficial Ownership Reporting Compliance, Information About the Audit Committee of the Board of Directors and its Practices, Committees of the Board of Directors, Executive Compensation, Director Compensation, Stock Ownership, Certain Transactions, Procedures for Related Party Transactions and Director Independence Assessments, Director Independence, and Proposal Two: Ratify the Designation of Deloitte & Touche LLP to Audit Schering-Plough s Books and Accounts for 2007; and

Schering-Plough also incorporates by reference each of the following documents that Schering-Plough will file with the SEC after the date of this prospectus (excluding any portions of such documents that have been furnished but not filed for purposes of the Exchange Act) until the offering of the Notes pursuant to this prospectus supplement and the accompanying prospectus is complete:

reports filed under Section 13(a) and (c) of the Exchange Act;

definitive proxy or information statements filed under Section 14 of the Exchange Act in connection with any subsequent stockholders meeting; and

any reports filed under Section 15(d) of the Exchange Act.

Schering-Plough does not incorporate by reference any information furnished under items 2.02 or 7.01 (or corresponding information furnished under item 9.01 or included as an exhibit) in any past or current Form 8-K filing (unless otherwise indicated).

You may request a copy of any filings referred to above (excluding exhibits not specifically incorporated by reference into the filing), at no cost, by contacting Schering-Plough in writing or by telephone (908-298-7436) at the following

address: Investor Relations, Schering-Plough Corporation, 2000 Galloping Hill Road, Kenilworth, NJ 07033. Documents may also be available on Schering-Plough s website at *http://www.schering-plough.com*. Please note that all references to *http://www.schering-plough.com* in this prospectus supplement are inactive textual references only and that the information contained on Schering-Plough s website is not incorporated by reference into this prospectus supplement or the accompanying prospectus, or intended to be used in connection with the offering of the Notes.

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PLANNED ACQUISITION OF ORGANON BIOSCIENCES N.V.

On March 12, 2007, Schering-Plough announced that its board of directors approved the acquisition of Organon BioSciences, the human and animal health care businesses of Akzo Nobel, for approximately 11 billion in cash ($15.3 billion based on the noon buying rate for euro on September 12, 2007). Schering-Plough believes the acquisition of Organon BioSciences will be a strong fit strategically, scientifically and financially.

Organon BioSciences will provide Schering-Plough with a strong base of products and businesses. Organon BioSciences pharmaceutical business, Organon, includes leading products such as Puregon®/Follistim®, a follicle-stimulating hormone for infertility; Esmeron®/Zemuron®, a neuromuscular blocker used in surgical procedures; NuvaRing®, Implanon®, Marvelon/Desogen® and Mercilon®/Mirecette® for contraception; Livial® for menopause/osteoporosis; Ovestin® for menopause-related symptoms; and Remeron® and Tolvon® for depression.

In addition to the currently marketed products, Organon currently has five compounds in Phase III development, including:

Asenapine, a psychopharmacologic agent for the treatment of patients with schizophrenia and acute mania bipolar disorder;

Sugammadex, for the reversal of neuromuscular blockade induced during surgical procedures;

NOMAC/E2, an oral contraceptive product containing nomegestrol acetate, a novel progesterone, and estriadiol, a natural estrogen;

ORG36286, a long-acting recombinant follicle-stimulating hormone for infertility; and

Esmirtazapine (ORG50081), for the treatment of insomnia and potentially for hot flashes in menopausal women.

Organon BioSciences animal health business, Intervet, is one of the top three animal health care companies globally, based on 2006 revenues. The Intervet business has a strong science base. Intervet s products treat a broad array of animals and disease states. Intervet s products include Nobivac®, a range of canine vaccines; Panacur®, a de-wormer; Bovilis®, a bovine biological for disease control and eradication; and Nobilis®, a poultry vaccine to keep flocks free from infectious disease.

The transaction, which is expected to close by the end of 2007, is anticipated to be accretive to Schering-Plough s earnings per share in the first full year, excluding purchase-accounting adjustments and acquisition-related costs. Schering-Plough expects to achieve annual synergies of approximately $500 million, however, it is expected that it will take three years from the closing of the acquisition to reach this level of synergies. Schering-Plough will finance the Organon BioSciences acquisition through a mix of cash, debt, and equity, including the net proceeds from this offering. Schering-Plough also has a committed 11 billion bridge facility. Any borrowings under the bridge facility may remain outstanding for up to one year following closing.

Schering-Plough and Akzo Nobel have entered into a binding offer letter and have agreed to execute a fully negotiated share purchase agreement upon completion of customary consultation procedures involving the Works Council of Organon BioSciences in the Netherlands. The acquisition is also subject to certain closing conditions, including regulatory approvals from the United States Federal Trade Commission and the European Commission.

Under Dutch law, Organon BioSciences is required to seek the advice of its Works Council regarding the planned acquisition by Schering-Plough. The Works Council issued its initial advice on July 27, 2007 and such advice was positive, subject to various conditions. With the satisfactory conclusion of subsequent discussions among Organon BioSciences, the Works Council and Schering-Plough, and the expiration of a mandatory waiting period, the Works Council has declined to take any formal action relating to the transaction. As a result, the requirements of Dutch law relating to the

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completion of the consultation procedures with the Organon BioSciences Works Council have been met and the corresponding condition to the transaction proceeding has been satisfied.

Schering-Plough has completed customary due diligence, however, Schering-Plough s access to some information during that process was limited because of antitrust regulations. Until Schering-Plough consummates the acquisition, Schering-Plough will not have complete access to information about Organon BioSciences. Further, because Organon BioSciences is not itself a public company, but part of the Akzo Nobel family of companies, public information about Organon BioSciences is limited. For historical financial information about Organon BioSciences, see Organon BioSciences combined financial statements in the accompanying prospectus.

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SCHERING-PLOUGH CORPORATION

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

The following unaudited pro forma condensed combined balance sheet and unaudited pro forma condensed statements of combined operations as of and for the six months ended June 30, 2007 and for the year ended December 31, 2006 have been prepared on a basis consistent with accounting principles generally accepted in the United States of America, referred to as U.S. GAAP, and applicable requirements of the Securities and Exchange Commission (SEC). The unaudited pro forma condensed combined financial statements are derived by applying pro forma adjustments to the combined historical financial statements of Schering-Plough and Organon BioSciences N.V., referred to as Organon BioSciences or the OBS Group, as the case may be, and which comprise the human and animal health businesses of Akzo Nobel N.V. Organon BioSciences historical audited combined financial statements as of December 31, 2006 and 2005 and for each of the years in the three-year period ended December 31, 2006, and the historical unaudited condensed combined interim financial statements as of and for the six month periods ended June 30, 2007 and 2006, each of which have been prepared under International Financial Reporting Standards, as adopted by the European Union, referred to as IFRS, appear on pages F-1 to F-104 in the accompanying prospectus. The unaudited pro forma condensed statements of combined operations give effect to the following transactions as if such transactions had occurred on January 1, 2006. The unaudited pro forma condensed combined balance sheet gives effect to the following transactions as if such transactions had occurred on June 30, 2007:

The planned acquisition by Schering-Plough of Organon BioSciences, referred to as the Organon BioSciences acquisition, for aggregate cash consideration of approximately $14.79 billion (approximately 11.00 billion).

The financing of the Organon BioSciences acquisition with aggregate proceeds of $9.79 billion from the following financing transactions:

Issuance of 10,000,000 shares of 6.00% mandatory convertible preferred stock, referred to as the 2007 Preferred Stock, for net proceeds of $2.44 billion in August 2007;

Issuance of 57,500,000 common shares for net proceeds of $1.54 billion in August 2007;

Issuance of the Notes for net proceeds of $1.98 billion; and

Draw down of debt under a committed bridge facility in the amount of $3.83 billion.

The use of existing Schering-Plough cash, cash equivalents and short-term investments of $5.00 billion to fund the purchase price.

The pro forma adjustments are based upon available information, preliminary estimates and certain assumptions that Schering-Plough believes are reasonable based on information currently available, and are described in the accompanying notes to the unaudited pro forma condensed combined financial statements. The unaudited pro forma condensed statements of combined operations should not be considered indicative of actual results that would have been achieved had the Organon BioSciences acquisition been consummated on the dates indicated and does not purport to indicate results of operations as of any future date or for any future period.

The acquisition of Organon BioSciences is currently under regulatory review, and a share purchase agreement has not been executed between Akzo Nobel and Schering-Plough. Further, Schering-Plough has not completed an analysis of change of control or other contractual provisions that may result from the acquisition. As a result, pro forma

adjustments related to the following matters have not been included in the unaudited pro forma condensed combined financial statements:

The effects of business or product divestitures required to obtain regulatory clearance. Currently such divestitures are not expected to be material in the aggregate.

The effects of change of control or other contractual provisions. Should the final negotiation of these matters result in a loss of rights under these contracts, profits may be materially and adversely affected.

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SCHERING-PLOUGH CORPORATION

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS (Continued)

In addition, final agreements have not been reached on the transfer of Organon BioSciences pension and other post-employment and post-retirement assets and liabilities from Akzo-Nobel to Schering-Plough. As a result, these unaudited pro forma condensed combined financial statements reflect a reasonable allocation of such assets and liabilities and related expense amounts made by Organon BioSciences management as described in Note 21 to the Organon BioSciences combined financial statements for the years ended December 31, 2006, 2005 and 2004 included in the accompanying prospectus. Such allocations may not be indicative of the actual separation of the pension and other post-employment and post-retirement assets and liabilities.

The Organon BioSciences acquisition will be accounted for using the purchase method of accounting in conformity with Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations as issued by the Financial Accounting Standards Board (FASB) in the U.S. Under this method, the purchase price and transaction related costs will be allocated to the assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date. Any excess of the purchase price over the estimated fair value of the net assets acquired (including identifiable intangible assets) will be allocated to goodwill.

In connection with the preliminary purchase price allocation, Schering-Plough has made estimates of the fair values of assets and liabilities based upon assumptions that Schering-Plough believes are reasonable. The allocation of purchase price for acquisitions requires use of accounting estimates and judgments to allocate the purchase price to the identifiable tangible and intangible assets acquired and liabilities assumed based on their respective fair values. Schering-Plough s process for estimating the fair values of in-process research and development, identifiable intangible assets and certain tangible assets requires significant estimates and assumptions including, but not limited to, determining the timing and estimated costs to complete the in-process projects, projecting regulatory approvals, estimating future cash flows and developing appropriate discount rates.

The allocation of purchase price is subject to finalization of Schering-Plough s analysis of the fair value of the assets acquired and liabilities assumed as of the acquisition date. The final allocation of the purchase price may result in additional adjustments to the recorded amounts of assets and liabilities and may also result in adjustments to depreciation, amortization and in-process research and development. These adjustments could result in material increases or decreases to net income available to common shareholders. Further revisions to the purchase price allocation will be made as additional information becomes available.

Accordingly, the purchase price allocation in the unaudited pro forma condensed combined financial statements is preliminary and will be adjusted upon completion of the final valuation. Such adjustments could be material. The final valuation is expected to be completed as soon as practicable but no later than 12 months after the consummation of the Organon BioSciences acquisition.

The U.S. GAAP historical Organon BioSciences amounts included in the unaudited pro forma condensed combined balance sheet as of June 30, 2007 and the unaudited pro forma condensed statement of combined operations for the six months ended June 30, 2007 are derived from the Organon BioSciences unaudited IFRS condensed combined interim balance sheet and statement of income presented in Euro as of and for the six months ended June 30, 2007 converted to U.S. GAAP and translated to U.S. Dollars. The U.S. GAAP historical Organon BioSciences amounts included in the unaudited pro forma condensed statement of combined operations for the year ended December 31, 2006 are derived from the Organon BioSciences audited IFRS statement of income presented in Euro for the year ended

December 31, 2006 converted to U.S. GAAP and translated to U.S. Dollars.

A reconciliation of Organon BioSciences combined net income and combined invested equity between U.S. GAAP and IFRS as of and for the year ended December 31, 2006 have been included

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SCHERING-PLOUGH CORPORATION

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS (Continued)

as Note 32 to the Organon BioSciences historical audited combined financial statements included in the accompanying prospectus.

A reconciliation of Organon BioSciences unaudited combined net income and combined invested equity between U.S. GAAP and IFRS as of and for the six months ended June 30, 2007 has been included as Note 21 to the Organon BioSciences historical unaudited condensed combined interim financial statements included in the accompanying prospectus.

The unaudited pro forma condensed combined financial statements are presented for informational purposes only. They do not purport to present what Schering-Plough s results of operations or financial condition would have been had these transactions actually occurred on the dates indicated, nor do they purport to represent Schering-Plough s results of operations for any future period or financial condition for any future date. Furthermore, no effect has been given in the unaudited pro forma condensed statements of combined operations for synergistic benefits that may be realized through the combination of Schering-Plough and Organon BioSciences or the costs that have been or may be incurred in integrating their operations.

The unaudited pro forma condensed combined financial statements should be read in conjunction with Schering-Plough s historical consolidated financial statements and related notes thereto, Management s Discussion and Analysis of Financial Condition and Results of Operations included in Schering-Plough s 2006 10-K and second quarter 2007 10-Q, which are incorporated by reference into this prospectus supplement, and Organon BioSciences historical audited combined financial statements as of December 31, 2006 and 2005 and for each of the years in the three-year period ended December 31, 2006 and historical unaudited condensed combined interim financial statements as of June 30, 2007 and for the six months ended June 30, 2007 and 2006 included in the accompanying prospectus.

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SCHERING-PLOUGH CORPORATION

UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET
AS OF JUNE 30, 2007
(in millions)

	U.S. GAAP Historical		Pro Forma Adjustments (See Note 3)		Pro Forma
	Schering-Plough	Organon BioSciences (See Note 2)	Financing	Purchase Accounting	Condensed Combined
			Increase/(Decrease)		
ASSETS					
Cash, cash equivalents and short-term investments	$ 6,234	$ 154	$ 9,792(a)	$ (14,792)(b)	$ 1,388
Accounts receivable, net	2,119	1,058			3,177
Receivables from related parties, net		509		(509)(c)	
Inventories	1,723	1,180		745(d)	3,648
Deferred income taxes	234	34			268
Prepaid expenses and other current assets	993	35			1,028
Total current assets	11,303	2,970	9,792	(14,556)	9,509
Property, plant and equipment, net	4,395	1,499		672(e)	6,566
Goodwill	210	540		3,633(f)	4,383
Other intangible assets, net	265	113		5,337(g)	5,715
				3,000(h)	
				(3,000)(h)	
Other assets	888	556			1,444
Total assets	$ 17,061	$ 5,678	$ 9,792	$ (4,914)	$ 27,617
LIABILITIES AND SHAREHOLDERS EQUITY					
Accounts payable	$ 1,334	$ 817	$	$	$ 2,151
Payables to related parties		1,570		(1,570)(c)	
Short-term borrowings and current portion of long-term debt	246	186			432
U.S., foreign and state income taxes	169	177			346
Other accrued liabilities	2,178	51		500(i)	2,729
Total current liabilities	3,927	2,801		(1,070)	5,658

Long-term debt	2,414	76	5,813(a)		8,303
Deferred income taxes	111	76		1,544(j)	1,731
Other long-term liabilities	1,739	337			2,076
Total long-term liabilities	4,264	489	5,813	1,544	12,110
Mandatory convertible preferred shares	1,438		2,500(a)		3,938
Common shares	1,021				1,021
Paid-in capital	1,921		1,322(a)		3,243
Invested equity		2,388		(2,388)(k)	
Retained earnings	10,723			(3,000)(h)	7,723
Accumulated other comprehensive loss	(773)				(773)
Treasury shares	(5,460)		157(a)		(5,303)
Total shareholders equity	8,870	2,388	3,979	(5,388)	9,849
Total liabilities and shareholders equity	$ 17,061	$ 5,678	$ 9,792	$ (4,914)	$ 27,617

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SCHERING-PLOUGH CORPORATION

UNAUDITED PRO FORMA CONDENSED STATEMENT OF COMBINED OPERATIONS
FOR THE SIX MONTHS ENDED JUNE 30, 2007
(in millions, except per share amounts)

	U.S. GAAP Historical		Pro Forma Adjustments (See Note 3)		Pro Forma
	Schering Plough	Organon BioSciences (See Note 2)	Financing	Purchase Accounting	Condensed Combined
			Increase/(Decrease)		
Net sales	$ 6,153	$ 2,468	$	$	$ 8,621
Cost of sales	1,913	766		245(l)	2,924
Selling, general and administrative	2,572	855			3,427
Research and development	1,403	442			1,845
Other (income)/expense, net	(62)	25	296(m)		259
Special and acquisition related charges	12				12
Equity income	(978)	(1)			(979)
Income before income taxes	1,293	381	(296)	(245)	1,133
Income tax expense/(benefit)	190	74	(61)(n)		203
Net income	1,103	307	(235)	(245)	930
Preferred stock dividends	43		75(o)		118
Net income available to common shareholders	$ 1,060	$ 307	$ (310)	$ (245)	$ 812
Diluted earnings per common share	$ 0.70				$ 0.52(p)
Basic earnings per common share	$ 0.71				$ 0.52(p)
Weighted average shares outstanding:					
Diluted	1,579				1,572
Basic	1,491				1,549

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SCHERING-PLOUGH CORPORATION

UNAUDITED PRO FORMA CONDENSED STATEMENT OF COMBINED OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2006
(in millions, except per share amounts)

	U.S. GAAP Historical		Pro Forma Adjustments (See Note 3)		
	Schering Plough	Organon BioSciences (See Note 2)	Financing	Purchase Accounting	Pro Forma Condensed Combined
			Increase/(Decrease)		
Net sales	$ 10,594	$ 4,643	$	$	$ 15,237
Cost of sales	3,697	1,498		490(l)	5,685
Selling, general and administrative	4,718	1,694			6,412
Research and development	2,188	781			2,969
Other (income)/expense, net	(135)	23	592(m)		480
Special and acquisition related charges	102				102
Equity income	(1,459)	(3)			(1,462)
Income before income taxes	1,483	650	(592)	(490)	1,051
Income tax expense/(benefit)	362	9	(122)(n)		249
Net income before cumulative effect of a change in accounting principle	1,121	641	(470)	(490)	802
Cumulative effect of a change in accounting principle, net of tax	(22)				(22)
Net income	1,143	641	(470)	(490)	824
Preferred stock dividends	86		150(o)		236
Net income available to common shareholders	$ 1,057	$ 641	$ (620)	$ (490)	$ 588
Diluted earnings per common share:					
Earnings available to common shareholders before cumulative effect of a change in accounting principle	$ 0.69				$ 0.36
Cumulative effect of a change in accounting principle	0.02				0.02

Diluted earnings per common share	$ 0.71	$ 0.38(p)
Basic earnings per common share:		
Earnings available to common shareholders before cumulative effect of a change in accounting principle	$ 0.69	$ 0.36
Cumulative effect of a change in accounting principle	0.02	0.02
Basic earnings per common share	$ 0.71	$ 0.38(p)
Weighted average shares outstanding:		
Diluted	1,491	1,549
Basic	1,482	1,540

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SCHERING-PLOUGH CORPORATION

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

1. DESCRIPTION OF THE PLANNED ORGANON BIOSCIENCES ACQUISITION AND BASIS OF PRESENTATION

On March 12, 2007, Schering-Plough announced its plan to acquire Organon BioSciences for approximately 11.00 billion in cash. The transaction is subject to certain closing conditions, including regulatory approvals, and is expected to close by the end of 2007.

The Organon BioSciences acquisition will be accounted for in accordance with U.S. GAAP using the purchase method of accounting. Under this method, the purchase price and transaction related costs are allocated to the assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date. Any excess of the purchase price over the estimated fair value of the net assets acquired (including identifiable intangible assets) is allocated to goodwill.

This allocation of the purchase price is subject to finalization of Schering-Plough s analysis of the fair value of the assets acquired and liabilities assumed as of the Organon BioSciences acquisition date. The final allocation of the purchase price may result in additional adjustments to the recorded amounts of assets and liabilities and may also result in adjustments to depreciation, amortization and in-process research and development. The adjustments arising out of the finalization of the purchase price allocation will not impact cash flows. However, such adjustments could result in material increases or decreases to net income available to common shareholders. Further revisions to the purchase price allocation will be made as additional information becomes available.

Accordingly, the purchase price allocation in the unaudited pro forma condensed combined financial statements is preliminary and will be adjusted upon completion of the final valuation. Such adjustments could be material. The final valuation is expected to be completed as soon as practicable but no later than 12 months after the consummation of the Organon BioSciences acquisition.

The unaudited pro forma condensed combined balance sheet gives effect to the Organon BioSciences acquisition and related financing as if it had occurred on June 30, 2007. The historical unaudited condensed combined balance sheet for Organon BioSciences at June 30, 2007, prepared in accordance with IFRS and presented in Euro, has been converted to U.S. GAAP and has been translated to U.S. Dollars using a rate of $1.35, which approximates the Euro conversion rate to U.S. Dollars at June 30, 2007. The unaudited pro forma condensed statement of combined operations for the six months ended June 30, 2007 and the twelve months ended December 31, 2006, gives effect to the Organon BioSciences acquisition and related financing as if it had occurred on January 1, 2006. The historical combined statement of income for Organon BioSciences for the six months ended June 30, 2007 and the twelve months ended December 31, 2006, prepared in accordance with IFRS and presented in Euro, have been converted to U.S. GAAP and have been translated to U.S. Dollars using exchange rates of $1.33 and $1.25, respectively, which approximates the average Euro conversion rate to U.S. Dollars for the applicable period.

The estimated purchase price was calculated as follows:

(in millions, except exchange rate)	
Consideration in Euro	11,000(1)
Exchange rate in U.S. Dollars per 1.00 Euro	$ 1.35

Consideration in U.S. Dollars	$ 14,850
Transaction costs	50
Estimated purchase price including net debt assumed	$ 14,900

(1) Includes 80 million (approximately $108 million using the June 30, 2007 exchange rate of 1.00 = $1.35) of net debt assumed by Schering-Plough.

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SCHERING-PLOUGH CORPORATION

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS (Continued)

The preliminary allocation of the purchase price as of June 30, 2007 is summarized below:

Preliminary Purchase Price Allocation as of June 30, 2007	Allocation of Purchase Price to Net Assets Acquired (in millions)
Identifiable intangible assets	$ 5,450(1)
Property, plant and equipment	2,171
Inventories	1,925
Other non-current assets	196
Net working capital, excluding Inventories	28
Deferred income tax, net	(1,238)
Acquisition related liabilities	(500)
Other long-term liabilities	(413)
Goodwill	4,173
In-process research and development (IPR&D)	3,000(2)
Estimated purchase price to be allocated	$ 14,792
Net debt assumed by Schering-Plough	108
Estimated purchase price including net debt assumed	$ 14,900

(1) The allocation of the purchase price to intangible assets includes trade names, products and product rights, and other identifiable intangibles, with a composite estimated useful live of approximately 12 years.

(2) The amounts allocated to in-process research and development will be charged to the statement of operations in the period the Organon BioSciences acquisition is consummated. This IPR&D amount is excluded from the unaudited pro forma condensed statements of combined operations as this charge is not expected to have a continuing impact on operations.

2. HISTORICAL COMBINED FINANCIAL STATEMENTS OF ORGANON BIOSCIENCES

The historical combined financial statements of Organon BioSciences as of December 31, 2006 and 2005 and for each of the years in the three-year period ended December 31, 2006, prepared in accordance with IFRS, are included in the accompanying prospectus. A reconciliation of Organon BioSciences combined net income and combined invested equity between U.S. GAAP and IFRS as of and for the year ended December 31, 2006 has been included in Note 32 to

those financial statements included in the accompanying prospectus.

The unaudited condensed combined interim financial statements of Organon BioSciences as of and for the six-month period ended June 30, 2007 have been prepared in accordance with IFRS. A reconciliation of Organon BioSciences combined net income and combined invested equity between U.S. GAAP and IFRS as of June 30, 2007 and for the six-month period ended June 30, 2007 has been included as Note 21 to those financial statements, included in the accompanying prospectus.

The amounts in the U.S. GAAP historical Organon BioSciences columns in the unaudited pro forma condensed combined financial statements were derived from the Organon BioSciences

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SCHERING-PLOUGH CORPORATION

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS (Continued)

historical annual audited and unaudited condensed combined interim financial statements included in the accompanying prospectus and have been adjusted for the following:

U.S. GAAP adjustments applied to the Organon BioSciences IFRS financial statements, including but not limited to, adjustments related to business combinations, pensions and other postretirement benefits, the impairment of goodwill, research and development costs, differing treatment of subsequent events between U.S. GAAP and IFRS, tax on elimination of intercompany profits and deferred income taxes.

Currency amounts have been translated from Euro to U.S. Dollars (at the rates specified in Note 1 to these unaudited pro forma condensed combined financial statements in accordance with SFAS No. 52 Foreign Currency Translation.)

Schering-Plough is in the process of reviewing Organon BioSciences accounting policies and financial statement classifications. As a result of that review, it may become necessary to make reclassifications or adjustments to the consolidated financial statements of Schering-Plough on a prospective basis.

3. PRO FORMA ADJUSTMENTS

Pro forma condensed combined balance sheet adjustments

(a) Reflects the following financing transactions:

Issuance of the 2007 Preferred Stock for net proceeds of $2.44 billion in August 2007;

Issuance of 57,500,000 common shares for net proceeds of $1.54 billion in August 2007; and

Issuance of the Notes for net proceeds of $1.98 billion; and

Draw down of debt under a committed bridge facility in the amount of $3.83 billion. The bridge facility has been classified as long-term debt, reflecting Schering-Plough s intention to replace the bridge facility with long-term debt of varying maturities.

(b) Reflects use of cash, cash equivalents and short-term investments of $14.79 billion, including the financing discussed in (a) above, to fund the purchase price.

(c) Reflects related party receivables, net and payables that will be settled as part of the transaction.

(d) Reflects the adjustment of the historical Organon BioSciences inventories to estimated fair value. Because this adjustment is directly attributed to the transaction and will not have a continuing impact, it is not reflected in the unaudited pro forma condensed statements of combined operations. However, this inventory adjustment will result in an increase in cost of sales in the periods subsequent to the consummation of the transaction during which the related inventories are sold.

(e) Reflects the adjustment to step-up the carrying values of the Organon BioSciences property, plant and equipment to estimated fair value.

(f) Reflects the addition of goodwill from the purchase price allocation of $4.17 billion and the elimination of historical Organon BioSciences goodwill of $540 million.

(g) Reflects the portion of the purchase price allocated to Organon BioSciences acquired identifiable intangible assets.

(h) Reflects the portion of the purchase price allocated to acquired in-process research and development projects that, as of the closing date of the Organon BioSciences acquisition, will not have reached technological feasibility and will have no alternative future use. Because this expense is

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SCHERING-PLOUGH CORPORATION

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS (Continued)

directly attributable to the Organon BioSciences acquisition and will not have a continuing impact, it is not reflected in the unaudited pro forma condensed statements of combined operations. However, this item will be recorded as an expense in the financial statements of Schering-Plough in the period that the Organon BioSciences acquisition is completed.

(i) Reflects an estimate of acquisition-related liabilities.

(j) Reflects net deferred tax liabilities arising from the acquisition.

(k) Reflects the elimination of all components of the historical equity of Organon BioSciences.

Pro forma condensed statement of combined operations adjustments

(l) Reflects additional annual depreciation of $45 million ($23 million on a six-month basis) related to the fair value adjustment to depreciable property, plant and equipment depreciated over a weighted average useful life of approximately 15 years.

Also reflects annual amortization expense of $445 million ($222 million on a six-month basis) for identifiable intangible assets in connection with the Organon BioSciences acquisition at their estimated fair values.

(m) Adjustment reflects $262 million ($131 million on a six-month basis) of lower annual interest income due to the use of cash to fund the Organon BioSciences acquisition. An interest rate of 5.25%, which represents Schering-Plough s current weighted average interest rate, was used to estimate the reduction in interest income.

Also reflects the increase in annual interest expense of $330 million ($165 million on a six-month basis). Annual interest expense on the Notes will be $128 million ($64 million on a six-month basis). The remaining interest expense was calculated using an interest rate of 5.25% and is based on the terms of the variable rate bridge facility. A 1/8% increase in the bridge facility interest rate would increase annual interest expense by approximately $5 million.

The bridge facility is expected to be refinanced into long-term debt of varying maturities. The adjustments included in the unaudited pro forma condensed statements of combined operations do not reflect the interest rates to be incurred upon the refinancing.

(n) Reflects the recognition of the income tax benefit of the above pro forma adjustments at an estimated tax rate of 25%.

(o) Reflects the additional Preferred Stock dividends resulting from the issuance of the 2007 Preferred Stock.

(p) Earnings per share amounts are calculated using net income available to common shareholders as the numerator and reflect the following weighted average shares outstanding:

Pro Forma

(all share amounts in millions)	Schering-Plough Historical	Issuance of Common Shares	2004 Preferred Stock	Condensed Combined
For the year ended December 31, 2006:				
Diluted shares outstanding	1,491	58		1,549
Basic shares outstanding	1,482	58		1,540
For the six months ended June 30, 2007:				
Diluted shares outstanding	1,579	58	(65)(1)	1,572
Basic shares outstanding	1,491	58		1,549

(1) 65 million common shares obtainable upon conversion of the 2004 Preferred Stock were dilutive to Schering-Plough s historical earnings per share for the six months ended June 30, 2007, but would not be dilutive to the pro forma condensed combined earnings per share and are therefore excluded from the computation. The 2007 Preferred Stock is assumed to be anti-dilutive to the pro forma condensed combined earnings per share and is therefore excluded from the computation for all periods presented.

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PROSPECTUS

Schering-Plough Corporation

Debt Securities
Preferred Shares
Common Shares

Schering-Plough may offer from time to time in one or more classes or series, together or separately:

debt securities;

preferred shares;

common shares; or

any combination of these securities.

Schering-Plough will provide specific terms of any securities that it offers for sale in supplements to this prospectus. You should read this prospectus and any prospectus supplement carefully before you invest. This prospectus may not be used to sell securities unless accompanied by a prospectus supplement or a term sheet.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Schering-Plough may sell these securities on a continuous or delayed basis directly, through agents or underwriters as designated from time to time, or through a combination of these methods. Schering-Plough reserves the sole right to accept, and together with any agents, dealers and underwriters, reserves the right to reject, in whole or in part, any proposed purchase of securities. If any agents, dealers or underwriters are involved in the sale of any securities, the applicable prospectus supplement will set forth any applicable commissions or discounts. Schering-Plough s net proceeds from the sale of securities will also be set forth in the applicable prospectus supplement.

The date of this prospectus is August 2, 2007.

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ABOUT THIS PROSPECTUS

The information contained in this prospectus is not complete and may be changed. You should rely only on the information provided in or incorporated by reference in this prospectus and the applicable prospectus supplement. Schering-Plough has not authorized anyone else to provide you with different information. Schering-Plough is not making an offer of any securities in any state where the offer is not permitted. You should not assume that the information in this prospectus or any prospectus supplement is accurate as of any date other than the date on the front cover of those documents and that any information Schering-Plough has incorporated by reference is accurate as of any date other than the date of the document incorporated by reference or such other date referred to in such document, regardless of the time of delivery of this prospectus or any sale or issuance of a security.

This prospectus is part of a registration statement that Schering-Plough has filed with the Securities and Exchange Commission using a shelf registration process. Under this shelf registration process, Schering-Plough may from time to time sell or issue, in one or more offerings, Schering-Plough s:

debt securities, in one or more series, which may be senior debt securities or subordinated debt securities;

preferred shares;

common shares; or

any combination of these securities.

This prospectus provides you with a general description of the securities Schering-Plough may offer. Each time Schering-Plough sells or issues securities, Schering-Plough will provide a prospectus supplement that will contain information about the terms of that specific offering of securities and the specific manner in which they may be offered. The prospectus supplement may also add to, update or change any of the information contained in this prospectus and, accordingly, to the extent inconsistent, the information in this prospectus is superseded by the information in the prospectus supplement. The prospectus supplement may also contain information about any material federal income tax considerations relating to the securities described in the prospectus supplement. You

should read both this prospectus and the applicable prospectus supplement together with the additional information described under Where You Can Find More Information before making an investment in Schering-Plough s securities.

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This prospectus contains summaries of certain provisions contained in some of the documents described herein, but reference is made to the actual documents for complete information. All of the summaries are qualified in their entirety by the actual documents. Copies of some of the documents referred to herein have been filed, or will be filed or incorporated by reference as exhibits to the registration statement of which this prospectus is a part, and you may obtain copies of those documents as described below under Where You Can Find More Information .

Because Schering-Plough is a well-known seasoned issuer , as defined in Rule 405 of the Securities Act of 1933, as amended, referred to as the Securities Act, Schering-Plough may add to and offer additional securities, including secondary securities, by filing a prospectus supplement with the SEC at the time of the offer.

The registration statement that contains this prospectus (including the exhibits to the registration statement) contains additional information about Schering-Plough and the securities offered under this prospectus. The registration statement can be read at the SEC website *(http://www.sec.gov)* or at the SEC offices listed under the heading Where You Can Find More Information .

You should rely only on the information contained or incorporated by reference or deemed to be incorporated by reference in this prospectus or in a prospectus supplement related to an offering prepared by or on behalf of Schering-Plough or used or referred to by Schering-Plough. Schering-Plough has not authorized anyone else to provide you with different or additional information. You should not rely on any other information or representations. Schering-Plough s affairs may change after this prospectus and any related prospectus supplement are conveyed. You should not assume that the information in this prospectus and any related prospectus supplement is accurate as of any date other than the dates indicated in such documents. You should read all information supplementing this prospectus.

All references to Schering-Plough Corporation , Schering-Plough and the company in this prospectus refer to Schering-Plough Corporation and its consolidated subsidiaries, unless, in each case, the context clearly indicates otherwise.

WHERE YOU CAN FIND MORE INFORMATION

Schering-Plough files reports, proxy statements and other information with the SEC. You may read and copy any document Schering-Plough files at the SEC s public reference room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. In addition, the SEC maintains a website that contains reports, proxy statements and other information that Schering-Plough electronically files. The address of the SEC s website is *http://www.sec.gov*. You may also inspect Schering-Plough s SEC reports and other information at the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

INCORPORATION OF INFORMATION SCHERING-PLOUGH FILES WITH THE SEC

The SEC allows Schering-Plough to incorporate by reference the information it files with them, which means:

- incorporated documents are considered part of this prospectus;
- Schering-Plough can disclose important information to you by referring you to those documents; and
- information that Schering-Plough files with the SEC will automatically update and supersede this incorporated information.

Schering-Plough incorporates by reference the documents listed below, which were filed with the SEC under the Securities Exchange Act of 1934, as amended, referred to as the Exchange Act, (excluding any portions of such

documents that have been furnished but not filed for purposes of the Exchange Act):

its 2006 10-K filed with the SEC on February 28, 2007;

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its first quarter 2007 10-Q filed with the SEC on April 27, 2007;

its second quarter 2007 10-Q filed with the SEC on July 27, 2007;

its 8-K filed with the SEC on January 29, 2007;

its 8-K filed with the SEC on March 16, 2007;

its 8-K filed with the SEC on April 19, 2007;

its 8-K filed with the SEC on June 28, 2007;

its 8-K filed with the SEC on July 11, 2007;

its 8-K filed with the SEC on July 23, 2007;

the following sections of its Proxy Statement for the 2007 Annual Meeting of Shareholders on Schedule 14A filed with the SEC on April 20, 2007: Proposal One: Elect Eleven Directors for a One-Year Term , Section 16(a) Beneficial Ownership Reporting Compliance , Information About the Audit Committee of the Board of Directors and its Practices , Committees of the Board of Directors , Executive Compensation , Director Compensation , Stock Ownership , Certain Transactions , Procedures for Related Party Transactions and Directo Independence Assessments , Director Independence , and Proposal Two: Ratify the Designation of Deloitte & Touche LLP to Audit Schering-Plough s Books and Accounts for 2007 ; and

the description of Schering-Plough s common shares contained in its Registration Statement on Form 8-A filed with the SEC on March 16, 1979, and any amendment or report filed for the purpose of updating such description.

Schering-Plough also incorporates by reference each of the following documents that Schering-Plough will file with the SEC after the date of this prospectus (excluding any portions of such documents that have been furnished but not filed for purposes of the Exchange Act):

reports filed under Section 13(a) and (c) of the Exchange Act;

definitive proxy or information statements filed under Section 14 of the Exchange Act in connection with any subsequent stockholders meeting; and

any reports filed under Section 15(d) of the Exchange Act.

Schering-Plough does not incorporate by reference any information furnished under items 2.02 or 7.01 (or corresponding information furnished under item 9.01 or included as an exhibit) in any past or current Form 8-K filing (unless otherwise indicated).

You may request a copy of any filings referred to above (excluding exhibits not specifically incorporated by reference into the filing), at no cost, by contacting Schering-Plough in writing or by telephone (908-298-7436) at the following address: Investor Relations, Schering-Plough Corporation, 2000 Galloping Hill Road, Kenilworth, NJ 07033.

Documents may also be available on Schering-Plough s website at *http://www.schering-plough.com*. Please note that all references to *http://www.schering-plough.com* in this prospectus and any prospectus supplement that accompanies this prospectus and the related registration statement are inactive textual references only and that the information contained on Schering-Plough s website is neither incorporated by reference into the registration statement or prospectus or any accompanying prospectus supplement nor intended to be used in connection with any offering hereunder.

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FORWARD-LOOKING STATEMENTS

This prospectus, the prospectus supplement, the documents incorporated by reference in this prospectus and other written reports and oral statements made from time to time by Schering-Plough may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements relate to expectations or forecasts of future events. Schering-Plough uses words such as anticipate , believe , could , estimate , expect , forecast , project , intend , plan , potential , will , and other words and terms of similar me connection with a discussion of potential future events, circumstances or future operating or financial performance. You can also identify forward-looking statements by the fact that they do not relate strictly to historical or current facts.

In particular, forward-looking statements include statements relating to future actions; ability to access the capital markets; prospective products or product approvals; timing and conditions of regulatory approvals; patent and other intellectual property protection; future performance or results of current and anticipated products; sales efforts; research and development programs and anticipated spending; estimates of rebates, discounts and returns; expenses and programs to reduce expenses; the anticipated cost of and savings from reductions in work force; the outcome of contingencies such as litigation and investigations; growth strategy; expected synergies and financial results.

By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. Schering-Plough s actual results may vary materially from those anticipated in such forward-looking statements as a result of many factors, some of which are more fully described in the following Risk Factors section, in the accompanying prospectus supplement and Schering-Plough s reports to the SEC incorporated by reference into this prospectus, and there are no guarantees with respect to Schering-Plough s performance. Schering-Plough does not assume the obligation to update any forward-looking statement for any reason.

RISK FACTORS

Schering-Plough s business faces significant risks. Before you invest in any of Schering-Plough s securities, in addition to the other information in this prospectus and in the accompanying prospectus supplement, you should carefully consider the risks and uncertainties identified in Schering-Plough s reports to the SEC incorporated by reference into this prospectus and the accompanying prospectus supplement. These risks may not be the only risks Schering-Plough faces. Additional risks that Schering-Plough does not yet know of or that Schering-Plough currently believes are immaterial or are based on assumptions that are later determined to be inaccurate also may impair Schering-Plough s business. If any of the risks described herein or in the accompanying prospectus supplement or Schering-Plough s reports to the SEC actually occur, Schering-Plough s business and operating results could be materially harmed. This could cause the value of the purchased securities to decline, and you may lose all or part of your investment.

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THE COMPANY

Schering-Plough is a global science-based company that discovers, develops and manufactures pharmaceuticals for three customer markets human prescription, consumer and animal health. While most of the research and development activity is directed toward prescription products, there are important applications of this central research and development platform into the consumer healthcare and animal health products. Schering-Plough also accesses external innovation via partnering, in-licensing and acquisition for all three customer markets.

Schering-Plough s principal executive offices are located at 2000 Galloping Hill Road, Kenilworth, NJ 07033, and Schering-Plough s telephone number is (908) 298-4000. Schering-Plough was incorporated in New Jersey in 1970.

RATIO OF EARNINGS TO FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

Schering-Plough s consolidated ratio of earnings to fixed charges for the six months ended June 30, 2007 and for the years ended December 31, 2002 through 2006 is set forth below. For the purpose of computing these ratios, earnings consist of income/(loss) before income taxes and equity income, plus fixed charges (other than capitalized interest and preference dividends), amortization of capitalized interest and distributed income of equity investee; and fixed charges and preferred stock dividends consist of interest expense, capitalized interest, preference dividends and one-third of rentals, which Schering-Plough believes to be a reasonable estimate of an interest factor on leases. Schering-Plough includes interest expense or interest income on unrecognized tax benefits as a component of income tax expense. The ratio was calculated by dividing the sum of the fixed charges into the sum of the earnings before taxes and fixed charges.

	Six Months Ended June 30,	Year Ended December 31,				
	2007	2006	2005	2004	2003	2002
Ratio of earnings to fixed charges and preferred stock dividends	7.4	5.1	1.6	(0.3)*	0.4**	33.2

* For the year ended December 31, 2004, earnings were insufficient to cover fixed charges and preferred stock dividends by $332 million.

** For the year ended December 31, 2003, earnings were insufficient to cover fixed charges by $70 million.

USE OF PROCEEDS

Unless the applicable prospectus supplement indicates otherwise, Schering-Plough currently intends to use the net proceeds from any sale of the offered securities for general corporate purposes, which may include, among other things, expenses to acquire additional marketed products and pipeline projects (through acquisitions of companies or through product licenses which may include royalties, license fees and milestone payments), research and development costs, litigation costs, the repayment of debt, other capital expenses and other operating expenses. Schering-Plough may temporarily invest funds that are not immediately needed for these general corporate purposes. If Schering-Plough intends to use the proceeds to repay outstanding debt, Schering-Plough will provide details about the debt that is being repaid in the applicable prospectus supplement.

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DESCRIPTION OF CAPITAL STOCK

This section contains a description of Schering-Plough s capital stock. The following summary of the terms of Schering-Plough s capital stock is not meant to be complete and is qualified by reference to Schering-Plough s amended and restated certificate of incorporation, referred to as the certificate of incorporation, and Schering-Plough s amended and restated by-laws, referred to as the by-laws, which are incorporated by reference as exhibits into the registration statement of which this prospectus is a part.

As of June 30, 2007, Schering-Plough s authorized capital stock consisted of:

(i) 2,400,000,000 common shares, par value $0.50 per share, of which:

1,496,297,204 were issued and outstanding,

547,238,751 were issued and held in treasury,

80,040,000 were reserved for issuance upon conversion of the 6.00% Mandatory Convertible Preferred Stock issued in 2004, referred to as the 2004 Preferred Stock, and

166,632,803 were reserved for issuance under stock incentive plans; and

(ii) 50,000,000 preferred shares, par value $1.00 per share, of which:

28,750,000 were designated as the 2004 Preferred Stock (28,750,000 shares of 2004 Preferred Stock will automatically convert into common shares on September 14, 2007, unless earlier converted, and such preferred shares will become undesignated and available for issuance in the future),

12,000,000 were designated as Series A Junior Participating Preferred Stock (which, in connection with the expiration of Schering-Plough s shareholder rights plan on July 10, 2007, were redesignated as authorized but unissued preferred shares), and

9,250,000 which are undesignated.

Common Shares

Holders of Schering-Plough s common shares, subject to any preferential rights of the holders of any preferred shares, are entitled to participate equally and ratably in dividends when and as declared by Schering-Plough s board of directors. In the event of the liquidation or dissolution of Schering-Plough, holders of Schering-Plough s common shares are entitled to share ratably in the remaining assets of Schering-Plough available for distribution, subject to prior or equal distribution rights of any holders of preferred shares. Record holders of common shares are entitled to one vote per share for the election of directors and upon all matters on which holders of common shares are entitled to vote. Holders of Schering-Plough s common shares do not have cumulative voting rights. There are no preemptive or conversion rights applicable to Schering-Plough s common shares. All outstanding shares of Schering-Plough s common shares are fully paid and non-assessable.

Preferred Shares

Schering-Plough s certificate of incorporation provides that its board of directors is authorized to issue preferred shares from time to time in one or more series without stockholder approval. Subject to limitations prescribed by law and Schering-Plough s certificate of incorporation, the board of directors may fix for any series of preferred shares the number of shares of such series and the voting powers, designations, preferences, rights, qualifications, limitations and restrictions of such series.

Schering-Plough s certificate of incorporation provides that whenever Schering-Plough is in default as to accrued dividends on preferred shares in an amount equivalent to six quarterly dividends, the holders of preferred shares, voting separately as a class, will be entitled to elect two directors at the next annual or special meeting of Schering-Plough s shareholders. The right of holders

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of preferred shares to elect two directors will continue until dividends in default on the preferred shares have been paid in full or declared and a sum sufficient for the payment thereof has been set aside. During any time that the holders of preferred shares, voting as a class, are entitled to elect two directors, as described in this paragraph, the holders of any series of preferred shares normally entitled to participate with the holders of the common shares in the election of directors shall not be entitled to participate with the holders of the common shares in the election of such directors.

For any series of preferred shares that Schering-Plough may issue pursuant to this prospectus, Schering-Plough s board of directors will determine and the prospectus supplement relating to such series will describe:

- the designation and number of shares of such series;
- the rate and time at which, and the preferences and conditions under which, any dividends will be paid on shares of such series, as well as whether such dividends are cumulative or non-cumulative and participating or non-participating;
- any provisions relating to convertibility or exchangeability of the shares of such series;
- the rights and preferences, if any, of holders of shares of such series upon Schering-Plough s liquidation, dissolution or winding up of its affairs;
- the voting powers, if any, of the holders of shares of such series;
- any provisions relating to the redemption of the shares of such series;
- whether and upon what terms a sinking fund will be used to purchase or redeem the shares;
- any limitations on Schering-Plough s ability to pay dividends or make distributions on, or acquire or redeem, other securities while shares of such series are outstanding;
- any conditions or restrictions on Schering-Plough s ability to issue additional shares of such series or other securities; and
- any other relative powers, preferences and participating, optional or special rights of shares of such series, and the qualifications, limitations or restrictions thereof.

When Schering-Plough issues preferred shares under this prospectus and any applicable prospectus supplement, the shares will be fully paid and non-assessable and will not have, or be subject to, any preemptive or similar rights.

Anti-takeover Protections

The following discussion summarizes certain provisions of the New Jersey Business Corporation Act, as amended, referred to as the NJBCA, and of Schering-Plough s certificate of incorporation and by-laws, which may have the effect of prohibiting, raising the costs of, or otherwise impeding, a change of control of Schering-Plough, whether by merger, consolidation or sale of assets or stock (by tender offer or otherwise), or by other methods.

Limits on Shareholder Action by Written Consent; Special Meetings

Schering-Plough s certificate of incorporation and by-laws provide that, subject to the rights of the holders of any series of preferred shares then outstanding, any action required or permitted to be taken by Schering-Plough s shareholders must be effected at a duly called annual or special meeting of shareholders and may not be effected by any consent in writing by such shareholders unless all of the shareholders entitled to vote on the matter consent in writing. Schering-Plough s certificate of incorporation and by-laws also provide that the affirmative vote of the holders of more than 50% of the voting power of all of the shares entitled to vote generally in the election of directors, voting together as a single class, will be required to amend Schering-Plough s certificate of incorporation or by-laws with respect to shareholder action by written consent.

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Except as otherwise provided by the NJBCA, under Schering-Plough s by-laws, a special meeting of shareholders may only be called by the Chairman of Schering-Plough s board of directors, Schering-Plough s Chief Executive Officer or board of directors and shall be held at such time and such place and for such purpose(s) as stated in the notice of the meeting. No business other than that stated in the notice of meeting may be transacted at any special meeting.

The above provisions may have the effect of delaying consideration of a stockholder proposal until the next annual meeting unless a special meeting is called by the Chairman of Schering-Plough s board of directors, Chief Executive Officer or board of directors.

Corporation s Best Interest

Under the NJBCA, the director of a New Jersey corporation may consider, in discharging his or her duties to the corporation and in determining what he or she reasonably believes to be in the best interest of the corporation, any of the following (in addition to the effects of any action on shareholders): (i) the effects of the action on the corporation s employees, suppliers, creditors and customers, (ii) the effects of the action on the community in which the corporation operates, and (iii) the long-term as well as the short-term interest of the corporation and its shareholders, including the possibility that these interests may be best served by the continued independence of the corporation. If, on the basis of the foregoing factors, the board of directors determines that any proposal or offer to acquire the corporation is not in the best interest of the corporation, it may reject such proposal or offer, in which event the board of directors will have no duty to remove any obstacles to, or refrain from impeding, such proposal or offer.

Required Vote for Authorization of Certain Actions; Anti-Greenmail Provisions

Under the NJBCA, the consummation of a merger or consolidation of a New Jersey corporation organized subsequent to January 1, 1969, such as Schering-Plough, requires the approval of such corporation s board of directors and the affirmative vote of a majority of the votes cast by each of the holders of shares of the corporation entitled to vote thereon and any class or series entitled to vote thereon as a class, unless such corporation is the surviving corporation, and: (i) such corporation s certificate of incorporation is not amended, (ii) the stockholders of the surviving corporation whose shares were outstanding immediately before the effective date of the merger will hold the same number of shares, with identical designations, preferences, limitations and rights, immediately after the merger or consolidation, as the case may be, and (iii) the number of voting shares and participating shares outstanding after the merger will not exceed by more than 40% the total number of voting or participating shares of the surviving corporation immediately before the merger. Similarly, in the case of a New Jersey corporation organized subsequent to 1969, such as Schering-Plough, a sale of all or substantially all of a corporation s assets other than in the ordinary course of business, or a voluntary dissolution of a corporation, requires the approval of such corporation s board of directors and the affirmative vote of a majority of the votes cast by each of the holders of shares of the corporation entitled to vote thereon and any class or series entitled to vote thereon as a class.

Schering-Plough s certificate of incorporation contains an anti-greenmail provision pursuant to which Schering-Plough or its subsidiaries may not purchase shares of voting stock from a 5% or greater shareholder at a per share price in excess of the market price unless (a) approved by the affirmative vote of the holders of the amount of voting power of the voting stock equal to the sum of the voting power of such 5% or greater shareholder and a majority of the voting power of the remaining outstanding shares of voting stock, voting together as a single class, or (b) the purchase is made pursuant to an offer made available to all holders of the same class of stock or an open market purchase.

No Rights Plan in Effect

The preferred share purchase right (commonly known as a poison pill) that Schering-Plough declared as a dividend on each share of its common stock on June 24, 1997 expired on July 10, 2007. The Schering-Plough board of directors

committed to Schering-Plough s shareholders that no

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new shareholder rights plan will be adopted in the future, unless the plan is submitted to shareholders for approval within 12 months of adoption. This commitment is reflected in the Schering-Plough Corporate Governance Guidelines.

Restrictions on Business Combinations with Certain Stockholders

The NJBCA provides that no corporation organized under the laws of New Jersey with its principal executive offices or significant operations located in New Jersey (a resident domestic corporation) may engage in any business combination (as defined in the NJBCA) with any interested stockholder (generally a 10% or greater stockholder) of such corporation for a period of five years following such interested stockholder s stock acquisition, unless such business combination is approved by the board of directors of such corporation prior to the stock acquisition. A resident domestic corporation, such as Schering-Plough, cannot opt out of the foregoing provisions of the NJBCA.

In addition, no resident domestic corporation may engage, at any time, in any business combination with any interested stockholder of such corporation other than: (i) a business combination approved by the board of directors prior to the stock acquisition, (ii) a business combination approved by the affirmative vote of the holders of two-thirds of the voting stock not beneficially owned by such interested stockholder at a meeting called for such purpose, or (iii) a business combination in which the interested stockholder pays a formula price designed to ensure that all other stockholders receive at least the highest price per share paid by such interested stockholder.

In connection with business combinations with any 10% stockholder, Schering-Plough s certificate of incorporation contains provisions requiring the approval of more than 50% of the voting power of all of the then-outstanding shares of capital stock of the corporation entitled to vote in the election of directors, voting together as a single class. Any amendments or repeal of the business combination provisions require the affirmative vote of the holders of more than 50% of the voting power of all of the shares entitled to vote, voting together as a single class.

DESCRIPTION OF DEBT SECURITIES

Schering-Plough may issue debt securities from time to time in one or more series. The following description summarizes the general terms and provisions of the debt securities that Schering-Plough may offer pursuant to this prospectus. The specific terms relating to any series of debt securities that Schering-Plough may offer will be described in a prospectus supplement. Please read and rely on the prospectus supplement, which includes important information for investors evaluating an investment in a series of Schering-Plough debt securities. Because the terms of specific series of debt securities offered may differ from the general information that Schering-Plough has provided below, you should rely on information in the applicable prospectus supplement that contradicts any information below.

As required by federal law for all bonds and notes of companies that are publicly offered, the debt securities will be governed by a document called an indenture . An indenture is a contract between a financial institution, acting on your behalf as trustee of the debt securities offered, and Schering-Plough. The debt securities will be issued pursuant to an indenture that Schering-Plough will enter into with a trustee. References to the indenture in this prospectus are to the indenture, dated November 26, 2003, as amended and restated, between Schering-Plough and The Bank of New York, as trustee, as may be supplemented by any supplemental indenture applicable to your debt securities. The trustee has two main roles. First, subject to some limitations on the extent to which the trustee can act on your behalf, the trustee can enforce your rights against Schering-Plough if Schering-Plough defaults on its obligations under the indenture. Second, the trustee performs certain administrative duties for Schering-Plough with respect to the debt securities. Unless otherwise provided in any applicable prospectus supplement, the following section is a summary of the principal terms and provisions that will be included in the indenture. The indenture has been filed as an exhibit incorporated by reference in the registration statement of which this prospectus is a part. If this

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summary refers to particular provisions of the indenture, such provisions, including the definitions of terms, are incorporated by reference in this prospectus as part of the summary. Schering-Plough urges you to read the indenture and any supplement thereto because these documents, and not this section or any description of the debt securities in any prospectus supplement, define your rights as a holder of debt securities.

In this Description of Debt Securities section, Schering-Plough refers to Schering-Plough Corporation, excluding its subsidiaries, unless otherwise expressly stated or the context otherwise requires.

General

The indenture does not limit the amount of debt that Schering-Plough may issue under the indenture or otherwise.

Under the indenture, Schering-Plough may issue the securities in one or more series. The securities may have the same or various maturities. The securities may be issued at par, at a premium or with original issue discount. Schering-Plough may also reopen a previous issue of securities and issue additional securities of the series.

The debt securities described in this prospectus and any prospectus supplement will be Schering-Plough s direct unsecured obligations. Senior debt securities will rank equally with Schering-Plough s other unsecured and senior indebtedness. Subordinated debt securities will be unsecured and subordinated in right of payment to the prior payment in full of all of Schering-Plough s unsecured and senior indebtedness. See Subordination below. Any of Schering-Plough s secured indebtedness will rank ahead of the debt securities to the extent of the assets securing such indebtedness. Also, Schering-Plough conducts operations primarily through its subsidiaries and substantially all of Schering-Plough s consolidated assets are held by its subsidiaries. Accordingly, Schering-Plough s cash flow and Schering-Plough s ability to meet its obligations under the debt securities will be largely dependent on the earnings of its subsidiaries and the distribution or other payment of these earnings to Schering-Plough in the form of dividends, loans or advances, and repayment of loans and advances from Schering-Plough. Schering-Plough s subsidiaries are separate and distinct legal entities and have no obligation to pay the amounts which will be due on Schering-Plough s debt securities or to make any funds available for payment of amounts which will be due on Schering-Plough s debt securities. Therefore, Schering-Plough s rights, and the rights of Schering-Plough s creditors, including the rights of the holders of the debt securities to participate in any distribution of assets of any of Schering-Plough s subsidiaries, if such subsidiary were to be liquidated or reorganized, is subject to the prior claims of the subsidiary s creditors. To the extent that Schering-Plough may be a creditor with recognized claims against its subsidiaries, Schering-Plough s claims will still be effectively subordinated to any security interest in, or mortgages or other liens on, the assets of the subsidiary that are senior to Schering-Plough.

Terms

The prospectus supplement relating to any series of debt securities being offered will include specific terms relating to the offering. These terms will include, among other terms, some or all of the following:

- the title and type of the series;
- the total principal amount;
- the percentage of the principal amount at which the securities will be issued;
- the dates on which the principal of the securities will be payable;
- any payments due if the maturity of the securities is accelerated;

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any interest rates or the method of determining the interest rates;

the dates from which any interest will accrue or the method of determining those dates;

the interest payment record and payment dates;

whether the securities are redeemable at Schering-Plough s option;

any sinking fund or other provisions that would obligate Schering-Plough to repurchase or otherwise redeem the securities;

the option of either Schering-Plough or the holder to elect the currency (for example, U.S. dollars, euros, or other non-U.S. currency, currency unit or composite currency) of payment on the securities;

the currency of the payment of principal, any premium, and any interest;

any index or other method Schering-Plough will use to determine the amount of principal or any premium or interest;

the form in which Schering-Plough will issue the securities (for example, registered or bearer book-entry form, or registered or bearer certificated form) and any restrictions related to the form;

any covenants, defaults, events of default or provisions applicable to the securities;

any special tax implications, including provisions for original issue discount securities, if offered;

any provisions for convertibility or exchangeability of the debt securities into or for any other securities;

any provisions granting special rights to the holders of the securities upon the occurrence of specified events;

the denominations of the securities;

whether the securities are subject to subordination and, if so, the subordination terms; and

any other specific terms of the securities.

Schering-Plough may in the future issue debt securities other than the debt securities described in this prospectus. There is no requirement that any other debt securities be issued under the indenture. Thus, Schering-Plough may issue any other debt securities under other indentures or documentation containing provisions different from those included in the indenture or any series of securities issued pursuant to this prospectus.

Events of Default

When Schering-Plough uses the term event of default in the indenture, here are some examples of what is meant. An event of default occurs if:

Schering-Plough fails to make the principal or any premium payment on any debt security when due;

Schering-Plough fails to pay interest on any debt security for 45 days after payment was due;

Schering-Plough fails to make any sinking fund payment when due;

Schering-Plough fails to perform any other covenant in the indenture and this failure continues for 90 days after Schering-Plough receives written notice of it from the trustee or the holders of at least 25% in principal amount of outstanding debt securities of that series; or

Schering-Plough or a court takes certain actions relating to the bankruptcy, insolvency or reorganization of the company.

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The supplemental indenture or the form of security for a particular series of debt securities may include additional events of default or changes to the events of default described above. The events of default applicable to a particular series of debt securities will be described in the prospectus supplement relating to that series. A default under Schering-Plough s other indebtedness will not be a default under the indenture for the debt securities covered by this prospectus, and a default under one series of debt securities will not necessarily be a default under another series. The trustee may withhold notice to the holders of debt securities of any default (except for defaults that involve Schering-Plough s failure to pay principal or interest) if it considers such withholding of notice to be in the best interests of the holders.

If an event of default with respect to outstanding debt securities of any series occurs and is continuing, then the trustee or the holders of at least 25% in principal amount of outstanding debt securities of that series may declare, in a written notice, the principal amount (or specified amount) plus accrued and unpaid interest on all debt securities of that series to be immediately due and payable. If Schering-Plough or a court takes certain actions relating to the bankruptcy, insolvency or reorganization of the company, the principal amount plus accrued and unpaid interest on all debt securities will become immediately due and payable without any declaration or other act on the part of the trustee or holders of securities. At any time after a declaration of acceleration with respect to debt securities of any series has been made, the holders of a majority in principal amount (or specified amount) of the outstanding debt securities of that series, by written notice to Schering-Plough and the trustee, may rescind and annul such declaration and its consequences if:

Schering-Plough has paid or deposited with the trustee a sum sufficient to pay overdue interest and overdue principal other than the accelerated interest and principal; and

Schering-Plough has cured or the holders have waived all events of default, other than the non-payment of accelerated principal and interest with respect to debt securities of that series, as provided in the indenture.

Schering-Plough refers you to the prospectus supplement relating to any series of debt securities that are discount securities for the particular provisions relating to acceleration of a portion of the principal amount of the discount securities upon the occurrence of an event of default.

If a default in the performance or breach of the indenture shall have occurred and be continuing, the holders of not less than a majority in principal amount of the outstanding securities of all series, by notice to the trustee, may waive any past event of default or its consequences under the indenture.

However, an event of default cannot be waived with respect to any series of securities in the following two circumstances:

a failure to pay the principal of, and premium, if any, or interest on any security; or

a covenant or provision that cannot be modified or amended without the consent of each holder of outstanding securities of that series.

Other than its duties in case of a default, the trustee is not obligated to exercise any of its rights or powers under the indenture at the request, order or direction of any holders, unless the holders offer the trustee reasonable indemnity. If they provide this reasonable indemnity, the holders of a majority in principal amount outstanding of any series of debt securities may, subject to certain limitations, direct the time, method and place for conducting any proceeding or any remedy available to the trustee, or exercising any power conferred upon the trustee, for any series of debt securities.

Schering-Plough is required to deliver to the trustee an annual statement as to Schering-Plough s fulfillment of all of its obligations under the indenture.

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Defeasance

The term defeasance , as used in the indenture means discharge from some or all of its obligations under the indenture. If Schering-Plough deposits with the trustee sufficient cash or government securities to pay the principal, any premium, interest and any other sums due on the stated maturity date or a redemption date of the securities of a particular series, then at Schering-Plough s option:

Schering-Plough will be discharged from its obligations with respect to the securities of such series; or

Schering-Plough will no longer be under any obligation to comply with certain restrictive covenants under the indenture, and certain events of default will no longer apply to Schering-Plough.

If this happens, the holders of the securities of the affected series will not be entitled to the benefits of the indenture except for registration of transfer and exchange of debt securities and replacement of lost, stolen or mutilated securities. Such holders may look only to such deposited funds or obligations for payment.

To exercise the defeasance option, Schering-Plough must deliver to the trustee an opinion of counsel that the deposit and related defeasance would not cause the holders of the securities to recognize income, gain or loss for federal income tax purposes. Schering-Plough must also deliver any ruling received from or published by the United States Internal Revenue Service if Schering-Plough is discharged from its obligations with respect to the securities.

Modification of the Indenture

Under the indenture, Schering-Plough s rights and obligations, as well as the rights of the holders, may be modified if the holders of a majority in aggregate principal amount of the outstanding debt securities of each series affected by the modification consent to the modification. However, none of the following modifications will be effective against any holder without its consent:

modification of the maturity date;

modification of the principal and interest payment terms;

modification of the currency for payment;

impairment of the right to sue for the enforcement of payment at the maturity of the debt security;

modification of any conversion rights; or

modification reducing the percentage required for modifications or modifying the foregoing requirements or reducing the percentage required to waive certain specified covenants.

In addition, no supplemental indenture shall adversely affect the rights of any holder of senior indebtedness with respect to subordination without the consent of such holder.

Subordination

The extent to which a particular series of subordinated debt securities may be subordinated to Schering-Plough s unsecured and senior indebtedness will be set forth in the prospectus supplement for any such series. The indenture may be modified by a supplemental indenture to reflect such subordination provisions.

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Form and Denomination of Debt Securities

Denomination of Debt Securities

Unless otherwise indicated in the applicable prospectus supplement, the debt securities will be denominated in U.S. dollars, in minimum denominations of $1,000 and multiples thereof.

Registered Form

Schering-Plough may issue the debt securities in registered form. In that case, Schering-Plough may issue the securities either in book-entry form only or in certificated form. Schering-Plough will issue registered debt securities in book-entry form only, unless it specifies otherwise in the applicable prospectus supplement. Debt securities issued in book-entry form will be represented by global securities.

Bearer Form

Schering-Plough also will have the option of issuing debt securities in non-registered form, as bearer securities, if Schering-Plough issues the securities outside the United States to non-U.S. persons. In that case, the applicable prospectus supplement will set forth the mechanics for holding the bearer securities, including the procedures for receiving payments, for exchanging the bearer securities for registered securities of the same series and for receiving notices. The applicable prospectus supplement will also describe the requirements with respect to Schering-Plough s maintenance of offices or agencies outside the United States and the applicable U.S. federal tax law requirements.

Holders of Registered Debt Securities

Book-Entry Holders

Schering-Plough will issue registered debt securities in book-entry form only, unless Schering-Plough specifies otherwise in the applicable prospectus supplement. Debt securities held in book-entry form will be represented by one or more global securities registered in the name of a depositary or its nominee. The depositary or its nominee will hold such global securities on behalf of financial institutions that participate in such depositary s book-entry system. These participating financial institutions, in turn, hold beneficial interests in the global securities either on their own behalf or on behalf of their customers.

Under the indenture, only the person in whose name a debt security is registered is recognized as the holder of that debt security. Consequently, for debt securities issued in global form, Schering-Plough will recognize only the depositary or its nominee as the holder of the debt securities, and Schering-Plough will make all payments on the debt securities to the depositary or its nominee. The depositary will then pass along the payments that it receives to its participants, which in turn will pass the payments along to their customers who are the beneficial owners of the debt securities. The depositary and its participants do so under agreements they have made with one another or with their customers or by law; they are not obligated to do so under the terms of the debt securities or the terms of the indenture.

As a result, investors will not own debt securities directly. Instead, they will own beneficial interests in a global security, through a bank, broker or other financial institution that participates in the depositary s book-entry system, or that holds an interest through a participant in the depositary s book-entry system. As long as the debt securities are issued in global form, investors will be indirect holders, and not holders, of the debt securities.

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Street Name Holders

In the event that Schering-Plough issues debt securities in certificated form, or in the event that a global security is terminated, investors may choose to hold their debt securities either in their own names or in street name . Debt securities held in street name are registered in the name of a bank, broker or other financial institution chosen by the investor, and the investor would hold a beneficial interest in those debt securities through the account that he or she maintains at such bank, broker or other financial institution.

For debt securities held in street name, Schering-Plough will recognize only the intermediary banks, brokers and other financial institutions in whose names the debt securities are registered as the holders of those debt securities, and Schering-Plough will make all payments on those debt securities to them. These institutions will pass along the payments that they receive from Schering-Plough to their customers who are the beneficial owners pursuant to agreements that they have entered into with such customers or by law; they are not obligated to do so under the terms of the debt securities or the terms of the indenture. Investors who hold debt securities in street name will be indirect holders, and not holders, of the debt securities.

Registered Holders

Schering-Plough s obligations, as well as the obligations of the trustee and those of any third parties employed by the trustee or Schering-Plough, run only to the registered holders of the debt securities. Schering-Plough does not have obligations to investors who hold beneficial interests in global securities, in street name or by any other indirect means and who are, therefore, not the registered holders of the debt securities. This will be the case whether an investor chooses to be an indirect holder of a debt security, or has no choice in the matter because Schering-Plough is issuing the debt securities only in global form.

For example, once Schering-Plough makes a payment or gives a notice to the registered holder of the debt securities, Schering-Plough has no further responsibility with respect to such payment or notice even if that registered holder is required, under agreements with depositary participants or customers or by law, to pass it along to the indirect holders but does not do so. Similarly, if Schering-Plough wants to obtain the approval of the holders for any purpose (for example, to amend an indenture or to relieve Schering-Plough of the consequences of a default or of Schering-Plough s obligation to comply with a particular provision of an indenture), Schering-Plough would seek the approval only from the registered holders, and not the indirect holders, of the debt securities. Whether and how the registered holders contact the indirect holders is up to the registered holders.

Notwithstanding the above, references to you or your in this description of debt securities are to investors who invest in the debt securities being offered by this prospectus, whether they are the registered holders or only indirect holders of the debt securities offered. References to your debt securities in this prospectus means the series of debt securities in which you hold a direct or indirect interest.

Special Considerations for Indirect Holders

If you hold debt securities through a bank, broker or other financial institution, either in book-entry form or in street name, Schering-Plough urges you to check with that institution to find out:

how it handles securities payments and notices;

whether it imposes fees or charges;

how it would handle a request for its consent, as a registered holder of the debt securities, if ever required;

if permitted for a particular series of debt securities, whether and how you can instruct it to send you debt securities registered in your own name so you can be a registered holder of such debt securities;

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how it would exercise rights under the debt securities if there were a default or other event triggering the need for holders to act to protect their interests; and

if the debt securities are in book-entry form, how the depositary s rules and procedures will affect these matters.

Global Securities

A global security represents one or any other number of individual debt securities. Generally, all debt securities represented by the same global securities will have the same terms. Each debt security issued in book-entry form will be represented by a global security that Schering-Plough deposits with and registers in the name of a financial institution or its nominee that Schering-Plough selects. The financial institution that Schering-Plough selects for this purpose is called the depositary. Unless Schering-Plough specifies otherwise in the applicable prospectus supplement, The Depository Trust Company, New York, New York, known as DTC, will be the depositary for debt securities that Schering-Plough issues in book-entry form.

A global security may not be transferred to or registered in the name of anyone other than the depositary or its nominee, unless special termination situations arise. Schering-Plough describes those situations below under Special Situations When a Global Security Will Be Terminated . As a result of these arrangements, the depositary, or its nominee, will be the sole registered holder of all debt securities represented by a global security, and investors will be permitted to own only beneficial interests in a global security. Beneficial interests must be held by means of an account with a broker, bank or other financial institution that in turn has an account either with the depositary or with another institution that has an account with the depositary. Thus, an investor whose security is represented by a global security will not be a registered holder of the debt security, but an indirect holder of a beneficial interest in the global security.

Special Considerations for Global Securities

As an indirect holder, an investor s rights relating to a global security will be governed by the account rules of the investor s financial institution and of the depositary, as well as general laws relating to securities transfers. The depositary that holds the global security will be considered the registered holder of the debt securities represented by such global security.

If debt securities are issued only in the form of a global security, an investor should be aware of the following:

An investor cannot cause the debt securities to be registered in his or her name, and cannot obtain non-global certificates for his or her interest in the debt securities, except in the special situations described below under Special Situations When a Global Security Will Be Terminated .

An investor will be an indirect holder and must look to his or her own bank or broker for payments on the debt securities and protection of his or her legal rights relating to the debt securities, as described under Holders of Registered Debt Securities above.

An investor may not be able to sell his or her interest in the debt securities to some insurance companies and other institutions that are required by law to own their securities in non-book-entry form.

An investor may not be able to pledge his or her interest in the debt securities in circumstances where certificates representing the debt securities must be delivered to the lender or other beneficiary of the pledge in order for the pledge to be effective.

The depositary s policies, which may change from time to time, will govern payments, transfers, exchanges and other matters relating to an investor s interest in the debt securities. Neither the trustee nor Schering-Plough have any responsibility for any aspect of the depositary s actions or

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for the depositary s records of ownership interests in a global security. Additionally, neither the trustee nor Schering-Plough supervise the depositary in any way.

DTC requires that those who purchase and sell interests in a global security that is deposited in its book-entry system use immediately available funds. Your broker or bank may also require you to use immediately available funds when purchasing or selling interests in a global security.

Financial institutions that participate in the depositary s book-entry system, and through which an investor holds its interest in a global security, may also have their own policies affecting payments, notices and other matters relating to the debt security. There may be more than one financial intermediary in the chain of ownership for an investor. Schering-Plough does not monitor and is not responsible for the actions of any of such intermediaries.

Special Situations When a Global Security Will Be Terminated

In a few special situations described below, a global security will be terminated and interests in the global security will be exchanged for certificates in non-global form, referred to as certificated debt securities. After such an exchange, it will be up to the investor as to whether to hold the certificated debt securities directly or in street name. Schering-Plough has described the rights of direct holders and street name holders under Holders of Registered Debt Securities above. Investors must consult their own banks or brokers to find out how to have their interests in a global security exchanged on termination of a global security for certificated debt securities to be held directly in their own names.

The special situations for termination of a global security are as follows:

if the depositary notifies Schering-Plough that it is unwilling, unable or no longer qualified to continue as depositary for that global security, and Schering-Plough does not appoint another institution to act as depositary within 90 days of such notification; or

if Schering-Plough notifies the trustee that it wishes to terminate that global security.

The applicable prospectus supplement may list situations for terminating a global security that would apply only to the particular series of debt securities covered by such prospectus supplement. If a global security were terminated, only the depositary, and not Schering-Plough or the trustee, would be responsible for deciding the names of the institutions in whose names the debt securities represented by the global security would be registered and, therefore, who would be the registered holders of those debt securities.

Form, Exchange and Transfer of Registered Securities

If Schering-Plough ceases to issue registered debt securities in global form, it will issue them:

only in fully registered certificated form; and

in the denominations specified in the applicable prospectus supplement.

Holders may exchange their certificated securities for debt securities of smaller denominations or combined into fewer debt securities of larger denominations, as long as the total principal amount is not changed.

Holders may exchange or transfer their certificated securities at the trustee s office. Schering-Plough has appointed the trustee to act as its agent for registering debt securities in the names of holders transferring debt securities. Schering-Plough may appoint another entity to perform these functions or perform them itself.

Holders will not be required to pay a service charge to transfer or exchange their certificated securities, but they may be required to pay any tax or other governmental charge associated with the transfer or exchange. The transfer or exchange will be made only if Schering-Plough s transfer agent is satisfied with the holders proof of legal ownership.

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If Schering-Plough has designated additional transfer agents for your debt security, they will be named in the applicable prospectus supplement. Schering-Plough may appoint additional transfer agents or cancel the appointment of any particular transfer agent. Schering-Plough may also approve a change in the location of the office through which any transfer agent acts.

If any certificated securities of a particular series are redeemable and Schering-Plough redeems less than all the debt securities of that series, Schering-Plough may block the transfer or exchange of those debt securities during the period beginning 15 days before the day Schering-Plough mails the notice of redemption and ending on the day of that mailing, in order to freeze the list of holders to prepare the mailing. Schering-Plough may also refuse to register transfers or exchanges of any certificated securities selected for redemption, except that Schering-Plough will continue to permit transfers and exchanges of the unredeemed portion of any debt security that will be partially redeemed.

If a registered debt security is issued in global form, only the depositary will be entitled to transfer and exchange the debt security as described in this subsection because it will be the sole holder of the debt security.

Payment and Paying Agents

On each due date for interest payments on the debt securities, Schering-Plough will pay interest to each person shown on the trustee s records as owner of the debt securities at the close of business on a designated day that is in advance of the due date for interest. Schering-Plough will pay interest to each such person even if such person no longer owns the debt security on the interest due date. The designated day on which Schering-Plough will determine the owner of the debt security, as shown on the trustee s records, is also known as the record date . The record date will usually be about two weeks in advance of the interest due date.

Because Schering-Plough will pay interest on the debt securities to the holders of the debt securities based on ownership as of the applicable record date with respect to any given interest period, and not to the holders of the debt securities on the interest due date (that is, the day that the interest is to be paid), it is up to the holders who are buying and selling the debt securities to work out between themselves the appropriate purchase price for the debt securities. It is common for purchase prices of debt securities to be adjusted so as to prorate the interest on the debt securities fairly between the buyer and the seller based on their respective ownership periods within the applicable interest period.

Schering-Plough will make payments on a global security by wire transfer of immediately available funds directly to the depositary, or its nominee, and not to any indirect holders who own beneficial interests in the global security. An indirect holder s right to those payments will be governed by the rules and practices of the depositary and its participants, as described under Global Securities above. Any other payments will be made as set forth in the applicable prospectus supplement.

If payment on a debt security is due on a day that is not a business day, Schering-Plough will make such payment on the next succeeding business day. The indenture will provide that such payments will be treated as if they were made on the original due date for payment. A postponement of this kind will not result in a default under any debt security or indenture, and no interest will accrue on the amount of any payment that is postponed in this manner.

Book-entry and other indirect holders should consult their banks or brokers for information on how they will receive payments on their debt securities.

Information Concerning the Trustee

The trustee, The Bank of New York (BONY), and certain of its affiliates have in the past and currently do provide banking, investment and other services to Schering-Plough. Those services

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include acting as a lender under Schering-Plough s revolving credit agreement; trustee under the indenture, dated as of November 26, 2003, under which Schering-Plough issued $1.25 billion aggregate principal amount of 5.3% senior unsecured notes due 2013 and $1.15 billion aggregate principal amount of 6.5% senior unsecured notes due 2033; a transfer agent for Schering-Plough s 2004 Preferred Stock and its common shares; and providing cash management services. Schering-Plough currently anticipates that BONY may continue to provide similar services in the future.

Governing Law

The indenture and the debt securities will be governed by, and construed in accordance with, the law of the State of New York.

PLAN OF DISTRIBUTION

Schering-Plough may sell the securities covered by this prospectus in any of the following methods:

through underwriters, dealers or remarketing firms;

directly to one or more purchasers, including to a limited number of institutional purchasers;

through agents; or

through a combination of any of the methods of sale.

Any such dealer or agent, in addition to any underwriter, may be deemed to be an underwriter within the meaning of the Securities Act. Any discounts or commissions received by an underwriter, dealer, remarketing firm or agent on the sale or resale of securities may be considered by the SEC to be underwriting discounts and commissions under the Securities Act.

Sale Through Underwriters

If underwriters are used in the sale of securities, such securities will be acquired by the underwriters for their own account and may be resold from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale. The securities may be offered to the public either through underwriting syndicates represented by managing underwriters or directly by one or more underwriters acting alone. Unless otherwise set forth in the applicable prospectus supplement, the obligations of the underwriters to purchase the securities described in the applicable prospectus supplement will be subject to certain conditions precedent, and the underwriters will be obligated to purchase all such securities if any are purchased by them. Any public offering price and any discounts or concessions allowed or reallowed or paid to dealers may be changed from time to time.

Direct Sales

The securities may be sold directly by Schering-Plough. In the case of securities sold directly by Schering-Plough, no underwriters or agents would be involved.

Sale Through Agents

The securities may be sold through agents designated by Schering-Plough from time to time. Any agents involved in the offer or sale of the securities in respect of which this prospectus is being delivered, and any commissions payable

by Schering-Plough to such agents, will be set forth in the applicable prospectus supplement. Unless otherwise indicated in the applicable prospectus supplement, any such agent will be acting on a best efforts basis for the period of its appointment.

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General Information

The terms of the offering of the securities with respect to which this prospectus is being delivered will be set forth in the applicable prospectus supplement and will include among other things:

- the type of and terms of the securities offered;
- the price of the securities;
- the proceeds to Schering-Plough from the sale of the securities;
- the names of the securities exchanges, if any, on which the securities are listed;
- the name of any underwriters, dealers, remarketing firms or agents and the amount of securities underwritten or purchased by each of them;
- any over-allotment options under which underwriters may purchase additional securities from Schering-Plough;
- any underwriting discounts, agency fees or other compensation to underwriters or agents; and
- any discounts or concessions which may be allowed or reallowed or paid to dealers.

Agents, dealers, underwriters and remarketing firms may be entitled, under agreements entered into with Schering-Plough to indemnification by Schering-Plough against certain civil liabilities, including liabilities under the Securities Act, or to contribution to payments they may be required to make in respect thereof.

Agents, dealers, underwriters and remarketing firms may be customers of, engage in transactions with, or perform services for Schering-Plough or Schering-Plough s subsidiaries in the ordinary course of business.

Unless otherwise indicated in the applicable prospectus supplement, all securities offered by this prospectus, other than Schering-Plough s common shares, which are listed on the New York Stock Exchange, will be new issues with no established trading market. Schering-Plough may elect to list any series of securities on an exchange, and in the case of Schering-Plough s common shares, on any additional exchange, but, unless otherwise specified in the applicable prospectus supplement, Schering-Plough shall not be obligated to do so. In addition, underwriters will not be obligated to make a market in any securities. No assurance can be given regarding the activity of trading in, or liquidity of, any securities.

VALIDITY OF SECURITIES

Unless otherwise indicated in a supplement to this prospectus, McCarter & English, LLP will pass upon the validity of the securities for Schering-Plough. In addition, Susan Ellen Wolf, Esq., Schering-Plough s Corporate Secretary, will pass upon certain matters related to this offering. Ms. Wolf is an officer of Schering-Plough and beneficially owns common shares and holds options to purchase additional common shares. Ms. Wolf is eligible to participate in the Schering-Plough Corporation 2006 Stock Incentive Plan and the Schering-Plough Employees Saving Plan and may receive benefits under those plans.

EXPERTS

The consolidated financial statements, the related financial statement schedule, and management s report on the effectiveness of internal control over financial reporting incorporated in this prospectus by reference from Schering-Plough s 2006 10-K have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their reports, which are incorporated herein by reference (which reports (1) express an unqualified opinion on the consolidated financial statements and financial statement schedule and include an explanatory paragraph regarding Schering-Plough s adoption of Statement of Financial Accounting Standards (SFAS) No. 123 (Revised 2004), Share-Based Payment , and SFAS No. 158, Employers Accounting for Defined

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Benefit Pension and Other Postretirement Plans , (2) express an unqualified opinion on management s assessment regarding the effectiveness of internal control over financial reporting, and (3) express an unqualified opinion on the effectiveness of internal control over financial reporting), and have been so incorporated in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.

With respect to the unaudited interim financial information for the periods ended March 31, 2007 and 2006, and June 30, 2007 and 2006, which is incorporated herein by reference, Deloitte & Touche LLP, an independent registered public accounting firm, have applied limited procedures in accordance with the standards of the Public Company Accounting Oversight Board (United States) for a review of such information. However, as stated in their reports included in Schering-Plough s first and second quarter 10-Q, and incorporated by reference herein, they did not audit and they do not express an opinion on that interim financial information. Accordingly, the degree of reliance on their reports on such information should be restricted in light of the limited nature of the review procedures applied. Deloitte & Touche LLP are not subject to the liability provisions of Section 11 of the Securities Act of 1933 for their reports on the unaudited interim financial information because those reports are not reports or a part of the registration statement prepared or certified by an accountant within the meaning of Sections 7 and 11 of the Securities Act.

The combined financial statements of the OBS Group as of December 31, 2006 and 2005, and for each of the years in the three-year period ended December 31, 2006, have been included herein in reliance upon the report of KPMG Accountants N.V., an independent public accounting firm, appearing elsewhere in this prospectus, and upon the authority of said firm as experts in accounting and auditing.

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INDEX TO OBS GROUP COMBINED FINANCIAL STATEMENTS

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OBS GROUP

COMBINED STATEMENTS OF INCOME
(Amounts in millions of euros)

	Note	For the Year Ended December 31, 2006	2005	2004
Revenues	4,5	3,718	3,499	3,339
Cost of sales		(1,159)	(1,122)	(1,112)
Gross profit		2,559	2,377	2,227
Selling and distribution expenses		(1,137)	(1,055)	(1,060)
Research and development expenses		(612)	(544)	(555)
General and administrative expenses		(244)	(227)	(201)
Other operating income/(expense)	6	17	173	119
		(1,976)	(1,653)	(1,697)
Operating income		583	724	530
Financial expenses	7	(45)	(35)	(25)
Financial income	7	10	6	10
		(35)	(29)	(15)
Operating income less net financing costs		548	695	515
Share of profit of associates	14	2	2	1
Profit before tax		550	697	516
Income tax expense	8	(157)	(131)	(158)
Profit for the period		393	566	358
Attributable to:				
Equity holders of the OBS Group		393	566	358
Minority interest				
Profit for the period		393	566	358

The accompanying notes are an integral part of these combined financial statements.

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OBS GROUP

COMBINED BALANCE SHEETS
(Amounts in millions of euros)

	Note	As of December 31, 2006	2005
ASSETS			
Property, plant and equipment, net	10	1,097	1,121
Intangible assets, net	11	145	164
Financial non-current assets:	12		
deferred tax assets	13	281	367
investments in associates	14	13	8
other investments	12	118	137
		412	512
Total non-current assets		1,654	1,797
Inventories, net	15	851	861
Income tax receivable	16	74	62
Receivables from related parties, net	3	11	6
Trade and other receivables, net	17	735	766
Cash and cash equivalents	18	239	59
Total current assets		1,910	1,754
Total assets		3,564	3,551
Invested Equity			
Owners net investment (including cumulative translation reserves)	19	2,311	2,185
Minority interest			1
Total invested equity		2,311	2,186
LIABILITIES			
Borrowings	23	45	59
Deferred income	22		7
Deferred tax liabilities	13	25	36
Provisions	21	267	325
Total non-current liabilities		337	427
Borrowings	24	112	124
Deferred income	22	10	31
Income tax payable	16	133	194
Payables to related parties	3	5	7
Trade and other payables	25	611	553
Provisions	21	45	29

Total current liabilities	916	938
Total liabilities	1,253	1,365
Total invested equity and liabilities	3,564	3,551

The accompanying notes are an integral part of these combined financial statements.

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OBS GROUP

COMBINED STATEMENTS OF CASH FLOWS
(Amounts in millions of euros)

	For the Year Ended December 31,		
	2006	**2005**	**2004**
Profit for the period	393	566	358
Adjustments to reconcile earnings to cash generated from operating activities:			
Depreciation and amortization	181	188	164
Impairments		73	28
Gains on divestments	(8)	(23)	(10)
Share of profit of associates	(2)	(2)	(1)
Changes in deferred taxes (non-cash recognized in income)	58	6	74
Provisions expense (non-cash recognized in income)	42	44	131
Interest expense funded by Akzo Nobel	38	28	19
Corporate overhead costs funded by Akzo Nobel	30	27	24
Insurance expense funded by Akzo Nobel	28	29	27
Share-based payment costs funded by Akzo Nobel	5	3	4
Other	15	(29)	(13)
Operating cash flow before changes in working capital and provisions	780	910	805
(Increase) in trade and other receivables	(7)	(57)	(110)
(Increase)/decrease in inventories	(24)	79	11
Decrease/(increase) in other non-current assets	8	(3)	6
Increase/(decrease) in trade and other payables and provisions	26	(130)	(141)
Increase/(decrease) in income tax payables and receivables, net	17	(20)	(12)
	20	(131)	(246)
Cash generated from operating activities	800	779	559
Purchase of intangible assets	(8)	(51)	(19)
Capital expenditures	(162)	(163)	(157)
Proceeds from sale of property, plant and equipment		16	9
Acquisitions	(8)	(8)	
Proceeds from sale of interests	11	23	15
Other	(3)		(2)
Net cash used in investing activities	(170)	(183)	(154)
Dividends paid to Akzo Nobel		(410)	(477)

Cash transfers (to)/from Akzo Nobel, net	(426)	(179)	150
Financing with affiliates			13
Bank overdrafts		(3)	(8)
(Decrease)/increase in borrowings	(20)	5	(75)
Net cash used in financing activities	(446)	(587)	(397)
Net increase in cash and cash equivalents	184	9	8
Effect of exchange rate changes on cash and cash equivalents	(4)	3	(1)
Net increase in cash and cash equivalents	180	12	7
Cash and cash equivalents at January 1	59	47	40
Cash and cash equivalents at December 31	239	59	47

The accompanying notes are an integral part of these combined financial statements.

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OBS GROUP

COMBINED STATEMENTS OF CHANGES IN INVESTED EQUITY
(Amounts in millions of euros)

	Owners Net Investment	Cumulative Translation Reserves	Minority Interest	Total Invested Equity
Balance at January 1, 2004	1,591		1	1,592
Changes in exchange rates in respect of foreign operations		(48)		(48)
Net income/(expense) recognized directly in equity		(48)		(48)
Profit for the period	358			358
Total income/(expenses)	358	(48)		310
Dividend paid to Akzo Nobel	(477)			(477)
Contributions attributed to:				
Share-based payment costs funded by Akzo Nobel	4			4
Interest expense funded by Akzo Nobel	19			19
Corporate overhead costs funded by Akzo Nobel	24			24
Insurance expense funded by Akzo Nobel	27			27
Tax transfers from Akzo Nobel, net	302			302
Employee benefits and other non-cash transfers, net	29			29
Cash transfers from Akzo Nobel, net	150			150
Balance at December 31, 2004	2,027	(48)	1	1,980
Changes in exchange rates in respect of foreign operations		94		94
Net income/(expense) recognized directly in equity		94		94
Profit for the period	566			566
Total income/(expenses)	566	94		660
Dividend paid to Akzo Nobel	(410)			(410)
Contributions attributed to:				
Share-based payment costs funded by Akzo Nobel	3			3
Interest expense funded by Akzo Nobel	28			28
Corporate overhead costs funded by Akzo Nobel	27			27
Insurance expense funded by Akzo Nobel	29			29
Tax transfers to Akzo Nobel, net	(127)			(127)
Employee benefits and other non-cash transfers, net	175			175
Cash transfers to Akzo Nobel, net	(179)			(179)
Balance at December 31, 2005	2,139	46	1	2,186
Changes in exchange rates in respect of foreign operations		(48)		(48)

Net income/(expense) recognized directly in equity		(48)		(48)
Profit for the period	393			393
Total income/(expenses)	393	(48)		345
Change minority interests in subsidiaries			(1)	(1)
Contributions attributed to:				
Share-based payment costs funded by Akzo Nobel	5			5
Interest expense funded by Akzo Nobel	38			38
Corporate overhead costs funded by Akzo Nobel	30			30
Insurance expense funded by Akzo Nobel	28			28
Tax transfers to Akzo Nobel, net	112			112
Employee benefits and other non-cash transfers, net	(6)			(6)
Cash transfers to Akzo Nobel, net	(426)			(426)
Balance at December 31, 2006	2,313	(2)		2,311

The accompanying notes are an integral part of these combined financial statements.

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OBS GROUP

NOTES TO THE COMBINED FINANCIAL STATEMENTS
(All amounts in millions of euros unless otherwise stated)

Note 1 Business and Basis of Presentation

Business

In these combined financial statements, the human healthcare and animal healthcare activities of Akzo Nobel N.V. (Akzo Nobel) are together referred to as the healthcare activities and references to the OBS Group or Company me those operating companies and other subsidiaries of Akzo Nobel that undertook the human and animal healthcare activities during the relevant periods covered by the combined financial statements.

The OBS Group is headquartered in Oss, The Netherlands.

The human healthcare business, Organon, specializes in the discovery, development, manufacturing and marketing of prescription medicines and products. Its core therapeutic areas of expertise are contraception, fertility, hormone therapy, mental health and anesthesia. Additionally, the Organon business includes Nobilon, a biotechnology company dedicated to exploring opportunities in the field of human vaccines.

The animal healthcare business, Intervet, offers a full range of veterinary vaccines and pharmaceuticals for a variety of animal species including poultry, pigs, cattle, sheep, goats, horses, cats, dogs and fish.

Following the announcement by Akzo Nobel that it intends to separate its healthcare activities from Akzo Nobel, Akzo Nobel incorporated Organon BioSciences N.V. (OBS N.V.) on September 1, 2006 as a public company with limited liability (naamloze vennootschap) incorporated under the laws of The Netherlands with an authorized share capital of EUR 225 thousand and an issued share capital of EUR 45 thousand.

On September 30, 2006 Akzo Nobel contributed to OBS N.V., through a contribution in kind, the shares of the two subholding companies, Organon BioSciences International B.V. and Organon BioSciences Nederland B.V., in exchange for 24,955,000 ordinary shares of OBS N.V. with a nominal value of EUR 1.00 (one euro) per share. As per the date of this contribution, OBS N.V. had an authorized share capital of EUR 125 million and an issued share capital of EUR 25 million.

These combined financial statements were authorized on July 30, 2007 by the Board of Management of the OBS N.V.

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OBS GROUP

NOTES TO THE COMBINED FINANCIAL STATEMENTS (Continued)
(All amounts in millions of euros unless otherwise stated)

Basis of Presentation

These combined financial statements reflect all of the assets, liabilities, revenues, expenses, and cash flows of the OBS Group. The significant legal entities forming part of the OBS Group are as follows:

Legal Entity	Country of Incorporation	Ownership
Organon BioSciences N.V.	The Netherlands	100.00%
Organon BioSciences Nederland B.V.(*)	The Netherlands	100.00%
Organon BioSciences International B.V. (**)	The Netherlands	100.00%
Intervet International B.V.	The Netherlands	100.00%
Intervet Inc.	USA	100.00%
Intervet International GmbH	Germany	100.00%
Intervet UK Ltd.	U.K.	100.00%
Laboratorios Intervet S.A.	Spain	100.00%
Hydrochemie GmbH	Germany	100.00%
Intervet Australia Pty Ltd.	Australia	100.00%
Intervet Deutschland GmbH	Germany	100.00%
Intervet Innovation GmbH	Germany	100.00%
Akzo Nobel Ltda (***)	Brazil	100.00%
Intervet Mexico S.A. de CV	Mexico	100.00%
Intervet S.A.	France	100.00%
Intervet Productions S.A.	France	100.00%
Intervet Pharma R&D S.A.	France	100.00%
Intervet (Italia) S.r.l.	Italy	100.00%
Intervet UK Production Ltd.	UK	100.00%
Intervet Holding B.V.	The Netherlands	100.00%
Intervet Nederland B.V.	The Netherlands	100.00%
Intervet KK	Japan	100.00%
Nobilon International B.V.	The Netherlands	100.00%
N.V. Organon	The Netherlands	100.00%
Organon (Ireland) Ltd. (****)	Ireland	100.00%
Organon International Inc.	USA	100.00%
Organon USA Inc.	USA	100.00%
Organon S.A.	France	100.00%
Nippon Organon KK	Japan	100.00%
Organon GmbH	Germany	100.00%
Organon Laboratories Ltd.	UK	100.00%
Organon Española S.A.	Spain	100.00%
Organon Italia S.p.A.	Italy	100.00%
Organon do Brasil Indústria e Comércio Ltda	Brazil	100.00%

Organon Ilaclari A.S.	Turkey	100.00%
Organon Holding B.V.	The Netherlands	100.00%
Organon Nederland B.V.	The Netherlands	100.00%
Organon Canada Ltd.	Canada	100.00%
Multilan AG	Switzerland	100.00%
Diosynth RTP Inc.	USA	100.00%

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OBS GROUP

NOTES TO THE COMBINED FINANCIAL STATEMENTS (Continued)
(All amounts in millions of euros unless otherwise stated)

(*) Formerly Akzo Nobel Pharma B.V.

(**) Formerly Akzo Nobel Pharma International B.V.

(***) Represents the Intervet division of Akzo Nobel Ltda, the combined financial statements only include those assets, liabilities, revenues, expenses and cash flows of this legal entity that pertain directly to healthcare activities. In June 2006 the Intervet division of this legal entity was incorporated in a separate entity (Intervet do Brasil Veterinaria Ltda), which is indirectly 100% owned by OBS N.V. The remaining business of Akzo Nobel Ltda is not related to healthcare activities and is not part of the spin-off healthcare activities.

(****) Including Organon Ireland Swiss Branch.

These combined financial statements exclude the assets, liabilities, revenues, expenses and cash flows of Akzo Nobel legal entities (and divisions thereof) not relating to the healthcare activities.

During 2006, the OBS Group divested Crina S.A., one of the remaining feed additives businesses held in the portfolio. During 2005, the OBS Group divested significant parts of its feed additives business to Biovet. In 2004, the OBS Group divested Dr. Bommeli AG, a business offering diagnostic reagents and testing kits for the control of livestock diseases. These combined financial statements reflect the revenues, expenses, and cash flows of these businesses up to the date of divestment.

The OBS Group has historically operated as an integrated part of Akzo Nobel and within the Akzo Nobel infrastructure. However, these combined financial statements have been prepared on a carve-out basis from the consolidated financial statements of Akzo Nobel to represent the financial position and performance of the OBS Group as if the OBS Group had existed as of and during the years ended December 31, 2006, 2005 and 2004, and as if International Accounting Standard (IAS) 27, *Consolidated and Separate Financial Statements,* has been applied throughout. The combined financial statements included herein may not necessarily be indicative of the OBS Group s financial position, results of operations, or cash flows had the OBS Group operated as a separate entity during the periods presented or for future periods.

As described above, these combined financial statements reflect the assets, liabilities, revenues, expenses, and cash flows of the OBS Group. Under the carve-out basis of presentation, these combined financial statements include allocations for various expenses, including corporate administrative expenses, as well as an allocation of certain assets and liabilities historically maintained by Akzo Nobel, but not recorded in the accounts of the OBS Group. These include, among other things, corporate overhead, interest expense, certain deferred and current income tax assets and liabilities, liabilities for certain compensation plans and contingent liabilities. The various allocation methodologies for corporate expenses, insurance, interest expense, share based payments, and pension and postretirement expenses are discussed in Notes 3, 3, 7, 20, and 21, respectively. Management of the OBS Group considers that such allocations have been made on a reasonable basis, but may not necessarily be indicative of the costs that would have been incurred if the OBS Group had operated on a stand-alone basis.

Akzo Nobel uses a centralized approach to manage cash and to finance many of its global operations. As a result, certain debt and cash and cash equivalents maintained at Akzo Nobel are not included in the accompanying combined financial statements. The combined statements of income include an allocation of Akzo Nobel s interest expense as discussed in Note 7. The OBS Group s financing requirements are represented by cash transactions with Akzo Nobel and are reflected in invested equity in the combined balance sheets.

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OBS GROUP

NOTES TO THE COMBINED FINANCIAL STATEMENTS (Continued)
(All amounts in millions of euros unless otherwise stated)

The invested equity balance in these combined financial statements of the OBS Group constitutes Akzo Nobel s investment in the OBS Group and represents the excess of total assets over total liabilities. Invested equity includes the effects of carve-out allocations from Akzo Nobel and the funding of the OBS Group through the in-house banking cash pooling arrangements and loans to and from related parties with Akzo Nobel, and the OBS Group s cumulative net income, including income directly recognized in equity. As a consequence, invested equity does not constitute any contract that evidences a residual interest in the assets after deducting liabilities to which reference is made in IAS 32, *Financial Statements: Disclosure and Presentation.*

For those OBS Group companies located in countries where they were included in the tax grouping of other Akzo Nobel entities within the respective entity s tax jurisdiction, the current tax payable or receivable of these OBS Group companies represents the income tax amount to be paid to or to be received from the country tax leading holding company of Akzo Nobel. For the purpose of these combined financial statements it is assumed that only the current year is outstanding.

The combined statements of cash flows have been prepared under the indirect method in accordance with the requirements of IAS 7, *Cash Flow Statements*. The combined statements of cash flows exclude currency translation differences, which arise as a result of translating the assets and liabilities of non-euro companies to euros at year-end exchange rates (except for those arising on cash and cash equivalents) and have been adjusted for non-cash transactions.

Akzo Nobel and the OBS Group have identified certain issues and areas that, in preparation of and following the separation, require mutually agreeable arrangements between them. These issues and areas have been included in a separation agreement, which was signed on February 28, 2007. Note 31 provides further explanation on the separation agreement.

As a result of the foregoing, among other things, the combined financial statements may not necessarily be indicative of the OBS Group s financial position, results of operations, or cash flows had the OBS Group operated on a separate stand-alone basis during the periods presented, or for future periods. Furthermore, the combined financial statements do not reflect the financial impact of the actual separation of the OBS Group from Akzo Nobel.

These combined financial statements of the OBS Group have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS). IFRS as adopted by the OBS Group does not differ from IFRS as provided by the International Accounting Standards Board (IASB). The accounting policies as set out below have been applied consistently in preparing the combined financial statements for the year ended December 31, 2006, 2005 and 2004, with the exception of IAS 32, *Financial Instruments: Disclosure and Presentation* and IAS 39 *Financial Instruments: Recognition and Measurement* for financial instruments, which have been applied as from January 1, 2005. Management has determined that the effect of not applying IAS 32 and IAS 39 prior to January 1, 2005 is immaterial.

These combined financial statements are presented in euro, which is the functional currency of OBS N.V. and the OBS Group. All amounts are in millions of euros except headcount figures or unless otherwise stated. IFRS as applied by the OBS Group differs in certain significant respects from accounting principles generally accepted in the United States of America (US GAAP). The effects of the application of US GAAP are discussed in Note 32.

Note 2 Significant Accounting Policies

A summary of the significant accounting policies used in the preparation of the accompanying combined financial statements is presented below.

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OBS GROUP

NOTES TO THE COMBINED FINANCIAL STATEMENTS (Continued)
(All amounts in millions of euros unless otherwise stated)

Principles of combination

These combined financial statements include the accounts of the OBS Group s operations controlled by Akzo Nobel and have been combined as if together for all periods presented.

All significant intercompany balances and transactions with combined entities have been eliminated. However, intercompany balances and transactions with Akzo Nobel, excluding the OBS Group, have not been eliminated, but are presented as balances and transactions with related parties.

Use of estimates

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRS that have a significant effect on the combined financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 29.

Management has also estimated the allocation of various expenses and certain assets and liabilities that have historically been maintained by Akzo Nobel as disclosed in Note 1 and throughout these combined financial statements.

Foreign currency translation

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to euro at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized in the combined statements of income. Non-monetary assets and liabilities that are measured in terms of historical costs in a foreign currency are translated using the exchange rate at the date of the transaction.

Assets and liabilities of foreign subsidiaries are translated into euros at exchange rates on the balance sheet date. Revenues and expenses are translated into euros at rates approximating the foreign exchange rates ruling at the dates of the transactions. Exchange differences resulting from translation into euros of shareholders equities and of intercompany loans of a permanent nature with respect to subsidiaries outside the euro region are recorded within invested equity. Upon disposal or liquidation of a foreign entity, these cumulative translation adjustments are recognized as income or expense.

Exchange gains and losses arising from transactions denominated in a currency other than the functional currency of the entity involved, as well as the fair value adjustment of forward exchange contracts, are included in the combined statements of income.