CORNERSTONE THERAPEUTICS INC
Form DEFM14A
December 26, 2013
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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

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

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

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material under Rule 14a-12

Cornerstone Therapeutics Inc.

(Name of Registrant as Specified In Its Charter)

(Name(s) of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

¨ No fee required.

x 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:

Cornerstone Therapeutics Inc. common stock, par value $0.001 per share

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

26,919,071 shares of common stock (including shares of restricted stock) and 2,318,140 shares of common stock underlying outstanding employee stock options with an exercise price of less than $9.50 per share

(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):

In accordance with Exchange Act Rule 0-11(c), the filing fee of $34,158.06 was determined by multiplying 0.0001288 by the aggregate merger consideration of $265,202,366.15. The aggregate merger consideration was calculated as the sum of (i) the product of (a) 26,919,071 outstanding shares of common stock (including shares of restricted stock) as of December 11, 2013 to be acquired in the merger, multiplied by (b) the per share merger consideration of $9.50 (equal to $255,731,174.50) plus (ii) the difference between the merger consideration of $9.50 per share and the aggregate exercise price of the 2,306,773 outstanding stock options for which the exercise price per share is less than $9.50 (which is $9,471,191.65).

(4) Proposed maximum aggregate value of transaction:

$265,202,366.15

(5) Total fee paid:

$34,158.06

x Fee paid previously with preliminary materials.

¨ 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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CORNERSTONE THERAPEUTICS INC.

1255 CRESCENT GREEN DRIVE, SUITE 250

CARY, NORTH CAROLINA 27518

December 26, 2013

To the Stockholders of Cornerstone Therapeutics Inc.:

I am pleased to invite you to join us for a special meeting of the stockholders of Cornerstone Therapeutics Inc. (Cornerstone, the Company, we, our or us) to be held at 1255 Crescent Green Drive, Suite 250, Cary, NC 27518 January 31, 2014, at 8:30 A.M., local time.

At the special meeting, the holders of our common stock, par value $0.001 per share (Common Stock), will be asked to consider and vote on a proposal to adopt the Agreement and Plan of Merger, dated as of September 15, 2013 (as it may be amended from time to time, the Merger Agreement), by and among Chiesi Farmaceutici S.p.A., an Italian Societá per Azioni (Chiesi), Chiesi U.S. Corporation, a Delaware corporation and a wholly-owned subsidiary of Chiesi (Chiesi US) and the Company. Pursuant to the terms and subject to the conditions specified in the Merger Agreement, Chiesi US will be merged with and into the Company (the Merger). The Company will be the surviving entity in the Merger and immediately following the Merger will be a wholly-owned subsidiary of Chiesi. Each share of Common Stock outstanding immediately prior to the effective time of the Merger (other than shares owned by Chiesi, Chiesi US or the Company or its subsidiaries and other than shares held by any of the Company s stockholders who are entitled to and have properly exercised appraisal rights under Delaware law) automatically will be canceled and will cease to exist and will be converted into the right to receive $9.50 in cash, without interest (the merger consideration), less applicable withholding taxes. The holders of those shares will cease to have any rights with respect thereto, other than the right to receive the merger consideration.

Our board of directors (the Board) formed a committee (the Special Committee) consisting solely of five independent and disinterested directors of the Company to evaluate the acquisition proposal made by Chiesi by letter dated February 18, 2013, and other alternatives available to the Company. Following negotiations between Chiesi and the Special Committee, Chiesi improved the terms of its proposal. Those improved terms are reflected in the provisions of the Merger Agreement. The Special Committee unanimously has determined that the transactions contemplated by the Merger Agreement, including the Merger, are fair to, and in the best interests of, the Company s stockholders (other than Chiesi and its subsidiaries), and unanimously recommended that the Board approve and declare advisable the Merger Agreement, a copy of which is attached as Annex A to the accompanying proxy statement, and the transactions contemplated therein, including the Merger, and that the Company s stockholders adopt the Merger Agreement. Based in part on that recommendation, the Board unanimously (acting without the participation of directors Anton Giorgio Failla and Marco Vecchia, who recused themselves from all proceedings of our Board related to the Merger because of their affiliation with Chiesi) (i) determined that it was advisable, fair to and in the best interests of the Company s stockholders that the Company enter into the Merger Agreement and the transactions contemplated by the Merger Agreement, including the Merger, (ii) approved and authorized and directed the execution and delivery of the Merger Agreement, and (iii) resolved to recommend that the Company s stockholders approve and adopt the Merger Agreement. **Accordingly, the Board (acting without the participation of Dr. Failla and Mr. Vecchia) unanimously recommends that the stockholders of the Company vote FOR the proposal to adopt the Merger Agreement.** The Board also unanimously (acting without the participation of Dr. Failla and Mr. Vecchia) recommends that the stockholders of the Company vote **FOR** the proposal to approve, on an advisory (non-binding) basis, the compensation that may become payable to certain of our executive officers in connection with

the Merger, as disclosed in the table under *Special Factors Potential Change of Control Payments to Executive Officers*, including the associated footnotes and narrative discussion.

We urge you to, and you should, read the accompanying proxy statement in its entirety, including the appendices, because it describes the Merger Agreement, the Merger and related matters and provides specific information

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concerning the special meeting and other important information related to the Merger. In addition, you may obtain information about us from documents filed with the Securities and Exchange Commission.

Regardless of the number of shares of Common Stock you own, your vote is very important. Two different stockholder approval requirements must be satisfied in order for the Merger Agreement to be adopted and for the Merger to be completed, as follows. The first stockholder approval requirement, which is imposed under Delaware law, will be satisfied if stockholders holding at least a majority of the shares of the Common Stock outstanding and entitled to vote at the close of business on the record date vote **FOR** the proposal to adopt the Merger Agreement. The second stockholder approval requirement, which is imposed under a provision of the Merger Agreement that was negotiated by the Special Committee with Chiesi, is a majority-of-the-minority requirement (the Majority-of-the-Minority Stockholder Approval Condition). The Majority-of-the-Minority Stockholder Approval Condition will be satisfied if stockholders holding at least a majority of the shares of the Common Stock outstanding and entitled to vote at the close of business on the record date, other than shares owned by Chiesi or any of its subsidiaries or by any officer or director of the Company, vote **FOR** the proposal to adopt the Merger Agreement. If you fail to vote or abstain from voting on the Merger Agreement, the effect will be the same as a vote against adoption of the Merger Agreement.

While stockholders may exercise their right to vote their shares in person, we recognize that many stockholders may not be able to, or do not desire to, attend the special meeting. Accordingly, we have enclosed a proxy that will enable your shares to be voted on the matters to be considered at the special meeting even if you are unable or do not desire to attend. If you desire your shares to be voted in accordance with the Board s recommendation, you need only sign, date and return the proxy in the enclosed postage-paid envelope. Otherwise, please mark the proxy to indicate your voting instructions; date and sign the proxy; and return it in the enclosed postage-paid envelope. You also may submit a proxy by using a toll-free telephone number or the Internet. We have provided instructions on the proxy card for using these convenient services.

Whether or not you plan to attend the special meeting, please take the time to vote by completing and signing the enclosed proxy card and mailing it to us or by submitting a proxy over the Internet or by telephone. If you submit a proxy and then attend the special meeting, your proxy will, upon your written request, be revoked in order that you may vote in person at the meeting.

Sincerely,

Michael D. Enright

Chairman of the Special Committee

Neither the Securities and Exchange Commission nor any state securities regulatory agency has approved or disapproved the Merger, passed upon the merits or fairness of the Merger or passed upon the adequacy or accuracy of the disclosure in this document. Any representation to the contrary is a criminal offense.

This proxy statement is dated December 26, 2013

and is first being mailed to stockholders on or about December 26, 2013.

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CORNERSTONE THERAPEUTICS INC.

1255 CRESCENT GREEN DRIVE, SUITE 250

CARY, NORTH CAROLINA 27518

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

To our Stockholders:

NOTICE IS HEREBY GIVEN that a special meeting of the stockholders of Cornerstone Therapeutics Inc., a Delaware corporation (Cornerstone, the Company, we, our or us), will be held at 1255 Crescent Green Drive, Su 250, Cary, NC 27518 on January 31, 2014, at 8:30 A.M., local time, for the following purposes:

1. to consider and vote on a proposal to adopt the Agreement and Plan of Merger, dated as of September 15, 2013 (as it may be amended from time to time, the Merger Agreement), by and among Chiesi Farmaceutici S.p.A., an Italian Societá per Azioni (Chiesi), Chiesi U.S. Corporation, a Delaware corporation and a wholly-owned subsidiary of Chiesi (Chiesi US) and the Company;

2. to approve, on an advisory (non-binding) basis, the compensation that may become payable to certain of our executive officers in connection with the Merger, as disclosed in the table under *Special Factors Potential Change of Control Payments to Executive Officers*, including the associated footnotes and narrative discussion;

3. to approve the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to approve the proposal to adopt the Merger Agreement; and

4. to act upon other business as may properly come before the special meeting or any adjournment or postponement thereof by or at the direction of the Board.

The holders of record of our common stock, par value $0.001 per share (Common Stock) at the close of business on December 13, 2013, are entitled to notice of and to vote at the special meeting or at any adjournment or postponement thereof. All stockholders of record are cordially invited to attend the special meeting in person.

Your vote is important, regardless of the number of shares of Common Stock you own. Two different stockholder approval requirements must be satisfied in order for the Merger Agreement to be adopted and for the Merger to be completed, as follows. The first stockholder approval requirement, which is imposed under Delaware law, will be satisfied if stockholders holding at least a majority of the shares of the Common Stock outstanding and entitled to vote at the close of business on the record date vote **FOR** the proposal to adopt the Merger Agreement. The second stockholder approval requirement, which is imposed under a provision of the Merger Agreement that was negotiated by the Special Committee with Chiesi, is a majority-of-the-minority requirement. The proposal to approve, on an advisory (non-binding) basis, the compensation that may become payable to certain of our executive officers in connection with the Merger, as disclosed in the table under *Special Factors Potential Change of Control Payments to Executive Officers*, including the associated footnotes and narrative discussion, and the proposal to approve the

adjournment of the special meeting to solicit additional proxies, if necessary or appropriate, each require the affirmative vote of holders of a majority of the voting power present and voting. Even if you plan to attend the special meeting in person, we request that you complete, sign, date and return the enclosed proxy and thus ensure that your shares will be represented at the special meeting if you are unable to attend.

You also may submit your proxy by using a toll-free telephone number or the Internet. We have provided instructions on the proxy card for using these convenient services.

If you hold your shares in street name through a broker, bank or other nominee, you should follow the directions provided by your broker, bank or other nominee regarding how to instruct your broker, bank or other nominee to vote your shares. Without those instructions, your shares will not be voted, which will have the same effect as voting against the proposal to adopt the Merger Agreement.

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If you sign, date and return your proxy card without indicating how you wish to vote, your proxy will be voted in favor of the proposal to adopt the Merger Agreement, the proposal to approve, on an advisory (non-binding) basis, the compensation that may become payable to certain of our executive officers in connection with the Merger, as disclosed in the table under *Special Factors Potential Change of Control Payments to Executive Officers*, including the associated footnotes and narrative discussion, and the proposal to approve the adjournment of the special meeting to solicit additional proxies, if necessary or appropriate. If you fail to vote or submit your proxy, the effect will be that your shares will not be counted for purposes of determining whether a quorum is present at the special meeting and will have the same effect as a vote against the proposal to adopt the Merger Agreement. However, failure to vote or submit your proxy will not affect the vote regarding the proposal to approve, on an advisory (non-binding) basis, the compensation that may become payable to certain of our executive officers in connection with the Merger, as disclosed in the table under *Special Factors Potential Change of Control Payments to Executive Officers*, including the associated footnotes and narrative discussion, or the vote regarding the proposal to approve the adjournment of the special meeting to solicit additional proxies, if necessary or appropriate.

Your proxy may be revoked at any time before the vote at the special meeting by following the procedures outlined in the accompanying proxy statement. If you are a stockholder of record, and you attend the special meeting and wish to vote in person, you may revoke your proxy and vote in person.

BY ORDER OF THE BOARD OF DIRECTORS

Alastair McEwan

Secretary

Dated December 26, 2013

Cary, North Carolina

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SUMMARY TERM SHEET

This Summary Term Sheet discusses the material information contained in this proxy statement, including with respect to the Merger Agreement and the Merger. We encourage you to read carefully this entire proxy statement, including its annexes and the documents referred to or incorporated by reference in this proxy statement, as this Summary Term Sheet may not contain all of the information that may be important to you. The items in this Summary Term Sheet include page references directing you to a more complete description of that topic in this proxy statement.

Special Factors (page 16)

Background of the Merger (page 16)

A description of the background of the Merger, including our discussions with Chiesi, is included in *Special Factors Background of the Merger* beginning on page 16.

Reasons for the Merger; Recommendation of the Board of Directors and the Special Committee (Page 31)

The Special Committee, composed solely of five independent and disinterested directors, none of whom is affiliated with Chiesi or its affiliates, and none of whom are employees of the Company or any of its subsidiaries, unanimously determined that the Merger Agreement and the transactions contemplated by the Merger Agreement, including the Merger, are substantively and procedurally fair to and in the best interests of the unaffiliated stockholders and that it is advisable for the Company to enter into the Merger Agreement. The Special Committee also unanimously recommended that the Company s board of directors (the Board) (i) determine that the Merger Agreement, the Merger and the other transactions contemplated by the Merger Agreement are fair to and in the best interests of the Company and the unaffiliated stockholders, (ii) approve and declare advisable the Merger Agreement and the transactions contemplated thereby and (iii) resolve to recommend that our stockholders adopt the Merger Agreement. Acting upon the Special Committee s recommendations, the Board, pursuant to resolutions adopted at a meeting on September 15, 2013, (i) determined that the Merger Agreement and the transactions contemplated by the Merger Agreement, including the Merger, were substantively and procedurally fair to and in the best interests of the Company s unaffiliated stockholders, (ii) approved and declared advisable the Merger Agreement and the transactions contemplated by the Merger Agreement, including the Merger, and (iii) directed that the adoption of the Merger Agreement be submitted to a vote at a meeting of the stockholders of the Company with the recommendation of the Board that the stockholders of the Company adopt the Merger Agreement. In reaching its conclusion to make such determination and recommendations to the Board, the Special Committee consulted with its financial and legal advisors and considered various material factors. Our Board, acting upon the unanimous recommendation of the Special Committee, unanimously (acting without the participation of Dr. Failla and Mr. Vecchia) has recommended that the stockholders of the Company vote **FOR** the proposal to adopt the Merger Agreement. For a description of the reasons considered by the Special Committee and the Board in deciding to recommend approval of the proposal to adopt the Merger Agreement, see *Special Factors Reasons for the Merger; Recommendation of the Board of Directors and the Special Committee* beginning on page 31.

Opinion of Lazard Frères & Co. LLC (Page 36)

On September 15, 2013, at a meeting of the Special Committee held to evaluate the Merger, Lazard Frères & Co. LLC (Lazard) rendered its oral opinion to the Special Committee, subsequently confirmed in writing, to the effect that, as of that date and based upon and subject to the assumptions, procedures, factors, limitations and qualifications set forth in Lazard s written opinion, the merger consideration to be paid to the holders of Common Stock (other than Chiesi, Chiesi US and those holders who are entitled to and who have properly exercised appraisal rights under Delaware law)

in the Merger was fair, from a financial point of view, to those holders.

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The full text of the Lazard opinion is attached to this proxy statement as Annex B and is incorporated into this proxy statement by reference. The description of the Lazard opinion set forth in this proxy statement does not contain all of the information set forth in the full text of the Lazard opinion. Stockholders are urged to read the Lazard opinion in its entirety for a description of the procedures followed, assumptions made, matters considered and qualifications and limitations on the review undertaken by Lazard in connection with the opinion. Lazard s engagement and opinion were for the benefit of the Special Committee, in its capacity as such, and the Lazard opinion was rendered to the Special Committee in connection with its evaluation of the Merger. The Lazard opinion was not intended to and does not constitute a recommendation to any stockholder as to how the stockholder should vote or act with respect to the Merger or any matter relating to the Merger.

Position of Chiesi and Chiesi US as to the Fairness of the Merger (page 47)

Each of Chiesi and Chiesi US believes that the Merger is substantively and procedurally fair to the unaffiliated security holders, as defined in Rule 13e-3 under the Exchange Act, of the Company. Their belief is based upon their knowledge and analysis of the Company, as well as the factors discussed in *Special Factors Position of Chiesi and Chiesi US as to the Fairness of the Merger* beginning on page 47.

Purposes and Reasons of the Company for the Merger (Page 57)

Our purpose for engaging in the Merger is to enable our stockholders to receive the merger consideration of $9.50 per share in cash, without interest and subject to deduction for any required withholding taxes. The price of $9.50 per share represents (i) a premium of approximately 78% over our closing price of $5.35 on February 15, 2013, the last trading day before Chiesi delivered a letter to our Board in which Chiesi proposed a transaction in which it would acquire all of the outstanding shares of Common Stock not already owned by Chiesi for a price of between $6.40 and $6.70 per share in cash (the Initial Proposal), and (ii) a premium of approximately 42% over the high end of the Initial Proposal.

Certain Effects of the Merger (Page 58)

If the Merger Agreement is adopted by the requisite votes of the Company s stockholders and all other conditions to the consummation of the Merger are either satisfied or (to the extent permissible under the Merger Agreement) waived, Chiesi US will merge with and into the Company, and the Company will survive the Merger as a wholly-owned subsidiary of Chiesi. At the effective time of the Merger, each share of Common Stock outstanding immediately prior to the effective time of the Merger (other than shares owned by Chiesi, Chiesi US or the Company or its subsidiaries and other than shares held by any of the Company s stockholders who are entitled to and have properly exercised appraisal rights under Delaware law) automatically will be canceled and will cease to exist and will be converted into the right to receive $9.50 in cash, without interest, less applicable withholding taxes and the holders of those shares will cease to have any rights with respect thereto, other than the right to receive the merger consideration. Upon the completion of the Merger, the Common Stock no longer will be publicly traded and stockholders (other than Chiesi) will cease to have any ownership interest in the Company.

The primary benefit of the Merger to our stockholders (other than Chiesi and its subsidiaries) will be the right of those stockholders to receive a cash payment of $9.50, without interest, for each share of Common Stock held by them, representing a premium of approximately 78% above the closing price of the Common Stock on February 15, 2013, the last trading day before the date of the Initial Proposal, and a premium of approximately 42% to the high end of the range of prices presented in the Initial Proposal. After the Merger, those stockholders also no longer will be subject to the risk of any possible decrease in our future earnings, growth or value or of any possible decline in the trading price of our Common Stock.

The primary detriment of the Merger to our stockholders (other than Chiesi and its subsidiaries) is that the Merger will extinguish their continuing ownership interest in the Company and accordingly, following the Merger, those stockholders no longer will have the right to participate in any potential future earnings, growth or

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value realized by the Company nor the right to vote on corporate matters relating to the Company. The merger consideration of $9.50 per share is lower than the closing sale price of the Common Stock on September 13, 2013, the last trading day before the public announcement of the Merger Agreement, and is lower than the prices at which the Common Stock occasionally had traded during the three months before that date. The receipt of cash in exchange for shares of Common Stock pursuant to the Merger generally will be a taxable transaction for U.S. federal income tax purposes to our stockholders who are U.S. holders.

Chiesi will benefit from the fact that after the Merger is completed, Chiesi will be the sole beneficiary of the Company s future earnings and of any future appreciation in the Company s value. Chiesi also will benefit from the fact that after the Merger is completed, the Common Stock no longer will be publicly traded and will cease to be registered pursuant to the Exchange Act and accordingly, the Company no longer will be subject to the expense and administrative burden of complying with the periodic reporting and other requirements imposed under the Exchange Act and no longer will be subject to any pressure to meet analysts forecasts or the expectations of public stockholders. The Company currently estimates that the amount of the regulatory compliance cash cost savings to be realized by reason of no longer being subject to the periodic reporting and other obligations to which it presently is subject under the Exchange Act will be approximately $1.4 million per year. As the sole owner of the Company, Chiesi will be the exclusive beneficiary of any regulatory compliance cost savings to be realized by the Company after the Merger.

Interests of the Company s Directors and Executive Officers in the Merger (Page 65)

In considering the recommendation of the Board (made without the participation of Dr. Failla and Mr. Vecchia) that you vote to approve the proposal to adopt the Merger Agreement, you should be aware that, aside from their interests as stockholders of the Company, the Company s directors and executive officers have interests in the Merger that are different from, or in addition to, the interests of our other stockholders generally.

The areas where the interests of our directors (including the directors serving on the Special Committee) may differ from those of our other stockholders generally include the impact of the proposed Merger on the directors outstanding equity awards. In addition, our directors will benefit from the provisions contained in the Merger Agreement that require Chiesi to ensure that the directors of the Company will receive rights to indemnification, expense advancement and liability insurance coverage following the Merger and after they cease to be directors that are at least equivalent to, and in some instances may be more extensive than, the rights to which the directors presently are entitled. Those arrangements reflect the fact that, by their service on the Board, they may be subject to claims arising from such service. Members of the Special Committee also will benefit from the provisions of the indemnification agreements that they entered into with the Company after they were appointed to the Special Committee. In those agreements the Company granted various rights, including rights to indemnification and expense advancement, to the members of the Special Committee in recognition of the incremental personal exposure each member of the Special Committee might face by reason of serving on the Special Committee.

The areas where the interests of our executive officers may differ from those of our other stockholders generally involve the possible receipt by those executive officers, pursuant to their existing compensation arrangements, of the following types of payments and benefits that may become payable or available as a result of or in connection with the Merger:

- cash payments under severance arrangements;

acceleration of and payments in respect of equity awards;

the provision of indemnification, expense advancement and liability insurance arrangements pursuant to the Merger Agreement; and

related benefits.

These interests are discussed in more detail under *Special Factors Interests of the Company s Directors and Executive Officers in the Merger* beginning on page 65. The members of the Special Committee and the Board

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were aware of the differing interests and considered them, among other matters, in evaluating and negotiating the Merger Agreement and the Merger and in recommending to our stockholders that the Merger Agreement be adopted.

Financing for the Merger; No Financing Condition (Page 65)

The Merger is not subject to any financing condition. We estimate that the total amount of funds that will be required to fund the merger consideration and the payments required to be made to holders of stock options and restricted shares and to pay related expenses will be approximately $122 million. We understand from Chiesi that it expects to fund this amount using cash on hand. At November 30, 2013, the balance of our cash and cash equivalents was $90.1 million.

Material U.S. Federal Income Tax Consequences of the Merger (Page 71)

If you are a U.S. holder (as defined under Special Factors Material U.S. Federal Income Tax Consequences of the Merger), the receipt of cash in exchange for shares of Common Stock pursuant to the Merger will generally be a taxable transaction for U.S. federal income tax purposes. You should consult your own tax advisers regarding the particular tax consequences to you of the exchange of shares of Common Stock for cash pursuant to the Merger in light of your particular circumstances (including the application and effect of any state, local or foreign income and other tax laws).

Anticipated Accounting Treatment of the Merger (Page 74)

The Company, as the surviving corporation in the Merger, will account for the transaction as a business combination using the acquisition method of accounting for financial accounting purposes, whereby the estimated purchase price will be allocated to the assets and liabilities of Cornerstone based on their fair values following FASB Accounting Standards Codification Topic 805, Business Combinations.

Regulatory Approvals (Page 73)

We believe that the Merger is not subject to the reporting and waiting period provisions of the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and will not require any other federal, state or foreign regulatory clearances or approvals.

Fees and Expenses (Page 73)

The Merger Agreement provides that all costs and expenses incurred in connection with the Merger, the Merger Agreement and the transactions contemplated by the Merger Agreement will be paid by the party incurring the expenses.

Litigation (Page 74)

Merger-Related Litigation

Since the announcement on September 16, 2013 of the execution of the Merger Agreement, four lawsuits challenging the proposed acquisition of the Company have been filed in the Delaware Court of Chancery. Each of the Delaware lawsuits is a putative class action filed on behalf of the stockholders of the Company other than the defendants and their affiliates.

The four complaints have been consolidated into a single action by court order, and, on December 11, 2013, the plaintiffs filed a consolidated amended complaint against the Company, its directors, Chiesi and Chiesi US. The plaintiffs allege that: (i) the Cornerstone directors breached their fiduciary duties in connection with their approval of the Merger Agreement and by allegedly failing properly to disclose certain material information relating to the Merger; (ii) Chiesi and Chiesi US breached their fiduciary duties in connection with the approval

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of the Merger Agreement; and (iii) the Company aided and abetted the alleged breaches of fiduciary duty by the Cornerstone directors, Chiesi and Chiesi US. The amended complaint seeks, among other relief, a preliminary and permanent injunction enjoining the Merger, rescission or rescissory damages in the event the Merger is consummated, an accounting for damages in the event the Merger is consummated, and costs and fees in connection with the lawsuit.

The outcome of these consolidated lawsuits is uncertain. An adverse judgment for money damages against the Company could have an adverse effect on the operations and liquidity of the Company. A preliminary injunction could delay or jeopardize the completion of the Merger, and an adverse judgment granting permanent injunctive relief could indefinitely enjoin completion of the Merger. An order of rescission could set aside the Merger even if the Merger has already been consummated. The Company and its directors believe that the claims asserted against them in the consolidated lawsuits are without merit.

Other Litigation

Before the terms of the Merger were finally negotiated by Chiesi and the Special Committee, the Company became involved in (and publicly disclosed) certain disputes and, subsequently, litigation regarding its intellectual property rights in respect of its CARDENE I.V.® product, an FDA-approved pre-mixed injection indicated for the short-term treatment of hypertension when oral therapy is not feasible or desirable. These developments were taken into account by the parties in the negotiation of the terms of the Merger. These disputes are briefly summarized below. On June 11, 2013, the Company received a letter from Exela Pharma Sciences, LLC (Exela) which advised the Company of the filing by Exela of a supplemental new drug application (sNDA) seeking approval for nicardipine hydrochloride RTU injectable formulations, which would directly compete with CARDENE I.V. On July 12, 2013, the Company received a second notice letter from Exela relating to a third, newly-issued patent held by the Company relating to CARDENE I.V., which would be addressed in a separate lawsuit. On July 24, 2013, the Company initiated a patent infringement lawsuit in the United States District Court for the District of Delaware alleging that Exela, Exela PharmSci, Inc., and Exela Holdings, Inc. infringed its U.S. Patent Nos. 7,612,102 and 7,659,291 (the Patents).

On August 15, 2013, the Company received a letter from a second company advising of the filing of an abbreviated new drug application in respect of CARDENE I.V. The letter asserted intellectual property claims similar to those previously asserted by Exela.

The Company also is a party to various other litigation proceedings. The Company s material litigation is disclosed in reports and other materials filed by the Company with the SEC.

The Parties to the Merger (page 77)

Cornerstone Therapeutics Inc.

Cornerstone Therapeutics Inc. (which we refer to in this proxy statement as Cornerstone, the Company, we, our or is a Delaware corporation. Our headquarters are located in Cary, North Carolina. The Company is a specialty pharmaceutical company focused on commercializing products for the hospital and adjacent specialty markets. The key elements of the Company s strategy are to focus its commercial and development efforts in the hospital and adjacent specialty product sectors within the U.S. pharmaceutical marketplace; to continue to seek out opportunities to acquire companies, marketed or registration-stage products and late-stage development products that fit within the Company s focus areas; and to generate revenues by marketing approved generic products through the Company s wholly-owned subsidiary, Aristos Pharmaceuticals, Inc. See Important Information Regarding Cornerstone Company Background beginning on page 97. See also The Parties to the Merger Cornerstone Therapeutics Inc. on page 77.

Additional information about the Company is contained in its public filings, which are incorporated by reference herein. See Where You Can Find Additional Information on page 117.

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Chiesi and Chiesi US

Chiesi Farmaceutici S.p.A. (Chiesi) is an Italian Società per Azioni. Chiesi U.S. Corporation (Chiesi US) is a Delaware corporation and a wholly-owned subsidiary of Chiesi. Chiesi US has not carried on any activities other than to hold shares of Common Stock. Chiesi is a leading European pharmaceutical company focused on the treatment of respiratory therapeutics and specialist medicine areas. See Important Information Regarding Chiesi and Chiesi US on page 115.

The Special Meeting (page 78)

Purpose of the Special Meeting (page 78)

You will be asked to consider and vote upon the proposal to adopt the Agreement and Plan of Merger, dated as of September 15, 2013 (as it may be amended from time to time, the Merger Agreement), by and among Chiesi, Chiesi US and the Company. The Merger Agreement provides that at the effective time of the merger, Chiesi US will be merged with and into the Company (the Merger), with the Company surviving the Merger as a wholly-owned subsidiary of Chiesi. At the effective time of the Merger, each share of common stock, par value $0.001 per share, of the Company (the Common Stock) outstanding immediately prior to the effective time of the Merger (other than shares owned by Chiesi, Chiesi US or the Company or its subsidiaries and other than shares held by any of the Company s stockholders who are entitled to and have properly exercised appraisal rights under Delaware law (dissenting shares)) will be converted into the right to receive $9.50 in cash, without interest (the merger consideration), less any applicable withholding taxes, whereupon all such shares will be automatically canceled upon the conversion thereof and will cease to exist, and the holders of such shares will cease to have any rights with respect thereto other than the right to receive the merger consideration. Shares of Common Stock held by any of Chiesi, Chiesi US and the Company or any wholly-owned subsidiary of the Company will not be entitled to receive the merger consideration.

Following and as a result of the Merger, the Company will be a privately held company, wholly-owned by Chiesi.

Required Vote (Page 79)

For the Company to consummate the Merger, two different stockholder approval requirements must be satisfied:

The first stockholder approval requirement, which is imposed under Delaware law, will be satisfied if stockholders holding at least a majority of the shares of the Common Stock outstanding and entitled to vote at the close of business on the Record Date vote **FOR** the proposal to adopt the Merger Agreement. In the Merger Agreement, Chiesi has agreed to vote its shares of Common Stock at the special meeting in favor of the adoption of the Merger Agreement. Assuming Chiesi does this, the first stockholder approval requirement will be satisfied.

The second stockholder approval requirement, which is imposed under a provision of the Merger Agreement that was negotiated by a special committee consisting solely of independent and disinterested directors (the Special Committee) with Chiesi, is a majority-of-the-minority requirement (the Majority-of-the-Minority Stockholder Approval Condition). The Majority-of-the-Minority Stockholder Approval Condition will be satisfied if the holders of at least a majority of the outstanding shares of Common Stock that were outstanding at the close of business on the Record Date and therefore are eligible to be voted at the special meeting and at that time were not

owned, directly or indirectly, by Chiesi, Chiesi US or any of their affiliates, by any officer or director of the Company or by any other person or entity having any equity interest in, or any right to acquire any equity interest in, Chiesi US or any person or entity of which Chiesi US is a direct or indirect subsidiary, vote **FOR** the proposal to adopt the Merger Agreement.

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The Merger Agreement (Page 85)

When the Merger Becomes Effective (Page 85)

We currently anticipate holding our stockholders meeting to vote on the Merger Agreement and completing the Merger during the first quarter of 2014, subject to approval of the proposal to adopt the Merger Agreement by the Company s stockholders as specified herein and the satisfaction of the other closing conditions.

Treatment of Company Options and Company Restricted Shares (Page 86)

Company Options. Each stock option outstanding immediately prior to the effective time of the Merger that was previously issued pursuant to a compensatory plan of the Company and that entitles the holder to purchase shares of our Common Stock, whether vested or unvested and whether it has an exercise price per share that is greater or less than or equal to $9.50, will be canceled and converted into the right to receive an amount in cash equal to the product of (i) the excess, if any, of $9.50 over the exercise price per share of the stock option and (ii) the total number of shares of our Common Stock subject to the stock option, less such amounts as are required to be withheld or deducted under applicable tax provisions. Chiesi will not assume any of the Company s stock options in the Merger.

Company Restricted Shares. At the effective time of the Merger, each outstanding share of our Common Stock awarded pursuant to a compensatory plan of the Company that is subject to any vesting requirements that remain unsatisfied will, as of the effective time of the Merger, be canceled and converted into the right to receive from Chiesi, Chiesi US or the surviving corporation an amount in cash equal to $9.50 less such amounts as are required to be withheld or deducted under applicable tax provisions.

Conditions to Completion of the Merger (Page 94)

Each party s obligation to complete the Merger is subject to the satisfaction or waiver of the following conditions:

- the proposal to adopt the Merger Agreement has been approved by the affirmative vote of holders of at least a majority of the outstanding shares of our Common Stock entitled to vote thereon;
- the Majority-of-the-Minority Stockholder Approval Condition has been satisfied; and
- there is no statute, rule, regulation, executive order, decree, ruling, judgment, decision or injunction by any court or other governmental authority of competent jurisdiction which has the effect of prohibiting the Merger where the consequences of failure to comply with such prohibition would reasonably be expected to be materially adverse to Chiesi.

The obligation of the Company to complete the Merger is also subject to the satisfaction or waiver of the following additional conditions:

- the representations and warranties of Chiesi and Chiesi US must be true and correct in all material respects both when made and at and as of the closing date of the Merger, as if made at and as of such time (except to the extent

expressly made as of a specified date, in which case as of such date), except where the failure of such representations and warranties to be so true and correct (without regard to any qualifications or exceptions as to materiality contained in such representations and warranties), would not, individually or in the aggregate, impair, prevent or delay in any material respect the ability of Chiesi or Chiesi US to perform its obligations under the Merger Agreement;

Chiesi and Chiesi US must have performed in all material respects all obligations and complied in all material respects with all covenants required by the Merger Agreement to be performed or complied with by them prior to the effective time of the Merger; and

each of Chiesi and Chiesi US must have delivered to the Company a certificate certifying to the effect that the above conditions have been satisfied.

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The respective obligations of Chiesi and Chiesi US to complete the Merger are also subject to the satisfaction or waiver of the following additional conditions:

- the representations and warranties of the Company with respect to capitalization and corporate authority and approval must be true and correct in all respects both when made and at and as of the closing date of the Merger, except that any error in the aggregate number of shares (x) outstanding and (y) issuable upon the exercise of Company options will be disregarded for this purpose unless the error involves an understatement of such number that in the aggregate represents more than a *de minimis* amount of the total number of shares outstanding;

- all other representations and warranties of the Company contained in the Merger Agreement must be true and correct in all respects both when made and at and as of the closing date of the Merger or, with respect to certain representations and warranties, as of a specified date, as described under *The Merger Agreement Conditions to Completion of the Merger* beginning on page 94;

- the Company must have performed in all material respects all obligations and complied in all material respects with all covenants required by the Merger Agreement to be performed or complied with by it prior to the effective time of the Merger; and

- the Company must have delivered to Chiesi a certificate, dated as of the closing date of the Merger and signed by an executive officer of the Company, certifying that the above conditions have been satisfied.

Termination (Page 95)

The Company and Chiesi may terminate the Merger Agreement by mutual written consent at any time before the completion of the Merger. In addition, either the Company or Chiesi may terminate the Merger Agreement if:

- the Merger has not been completed by February 28, 2014 (the outside date), as long as the party seeking to terminate the Merger Agreement has not breached in any material respect its obligations under the Merger Agreement in any manner that was the primary cause of the failure to consummate the Merger on or before such date. However, if the meeting of the Company s stockholders is adjourned or postponed by the Company in accordance with the provisions of the Merger Agreement to a date later than February 28, 2014, the outside date will be the date that is three business days after the date of the meeting of the Company s stockholders (but in no event later than March 31, 2014);

- any final nonappealable injunction or similar order that permanently enjoins or otherwise prohibits the consummation of the Merger has been issued by a governmental entity having competent jurisdiction; or

- the proposal to adopt the Merger Agreement has been submitted to the stockholders of the Company for approval and the required vote has not been obtained.

Chiesi may terminate the Merger Agreement:

if there is a breach, in any material respect, of any representation, warranty, covenant or agreement on the part of the Company which would result in a failure of certain conditions relating to the Company s representations, warranties, covenants and agreements to be satisfied and which breach is incapable of being cured by the outside date, or is not cured within thirty days following delivery of written notice of such breach, so long as Chiesi and Chiesi US are not then in material breach of their representations, warranties, agreements or covenants contained in the Merger Agreement; or

the Special Committee or our Board (provided the members of the Special Committee continue to represent a majority of our Board) has withdrawn its recommendation or changed its recommendation in a manner adverse to Chiesi.

The Company may terminate the Merger Agreement:

if there is a breach, in any material respect, of any representation, warranty, covenant or agreement on the part of any of Chiesi or Chiesi US which would result in a failure of certain conditions relating to Chiesi or

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Chiesi US s representations, warranties, covenants and agreements to be satisfied and which breach is incapable of being cured by the outside date, or is not cured within thirty days following delivery of written notice of such breach, so long as the Company is not then in material breach of its representations, warranties, agreements or covenants contained in the Merger Agreement.

Rights of Appraisal (Page 108)

Under Delaware law, holders of Common Stock who do not vote in favor of the proposal to adopt the Merger Agreement, who properly demand appraisal of their shares of Common Stock and who otherwise comply with the requirements of Section 262 of the General Corporation Law of the State of Delaware (the DGCL) will be entitled to seek appraisal for, and obtain payment in cash for the judicially determined fair value (as defined pursuant to Section 262 of the DGCL) of, their shares of Common Stock in lieu of receiving the merger consideration if the Merger is completed, but only if they comply with all applicable requirements of Delaware law. For more information about rights of appraisal under the DGCL and how holders of our Common Stock may exercise such rights, see *Rights of Appraisal* on page 108.

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QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING AND THE MERGER

In this section we briefly address some questions you may have regarding the special meeting, the Merger Agreement and the Merger. The information provided below may not address all of the issues that may be important to you as a stockholder of the Company. Please refer to the more detailed information contained elsewhere in this proxy statement, the annexes to this proxy statement and the documents referred to or incorporated by reference in this proxy statement for additional information regarding these and other topics.

Q: Why am I receiving this proxy statement?

A: You are receiving this proxy statement in connection with our solicitation of proxies to be voted at the special meeting. At the special meeting you and our other stockholders will have the opportunity to vote on the proposal to adopt the Merger Agreement and on the other proposals described below.

Q: What is the Merger Agreement?

A: The Merger Agreement is an agreement among the Company, Chiesi and Chiesi US that we entered into on September 15, 2013. Chiesi US is a wholly-owned subsidiary of Chiesi. The Merger Agreement provides for the Merger of Chiesi US with and into the Company. If the Merger is completed,

the Company will be the surviving corporation and will become a wholly-owned subsidiary of Chiesi; and

each outstanding share of the Company s Common Stock, other than shares owned by Chiesi, Chiesi US or the Company or its subsidiaries and other than shares held by any of the Company s stockholders who are entitled to and have properly exercised appraisal rights under Delaware law, will be converted into the right to receive $9.50 in cash, without interest and less any applicable withholding taxes.

Q: What matters will be voted on at the special meeting?

A: At the special meeting you and our other stockholders will be asked to consider and vote on the following proposals:

to adopt the Merger Agreement;

to approve, on an advisory (non-binding) basis, the compensation that may become payable to certain of our executive officers in connection with the Merger, as disclosed in the table under *Special Factors Potential Change of Control Payments to Executive Officers,* including the associated footnotes and narrative

discussion;

to approve the adjournment of the special meeting, if necessary or appropriate, in order to allow additional time to solicit additional proxies if there are insufficient votes at the time of the special meeting to approve the proposal to adopt the Merger Agreement; and

to act upon other business that may properly come before the special meeting or any adjournment or postponement thereof by or at the direction of the Board.

Q: Where and when will the special meeting be held?

A: The special meeting will be held at 1255 Crescent Green Drive, Suite 250, Cary, NC 27518 on January 31, 2014, at 8:30 A.M., local time, unless postponed or adjourned to a later time.

Q: Who can attend and vote at the special meeting?

A: All stockholders of record as of the close of business on December 13, 2013, the Record Date for the special meeting, are entitled to receive notice of and to attend and vote at the special meeting, including any

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adjournment or postponement of the special meeting. If you wish to attend the special meeting and to vote in person at the special meeting and you are a stockholder of record (meaning that you own your shares directly in your own name), please be prepared to provide proper identification, such as a driver s license, so that we can verify your entitlement to attend the special meeting and to vote. If you wish to attend the special meeting and your shares of Common Stock are held in street name by your broker, bank or other nominee, you will need to provide proof of your share ownership, such as a recent account statement or letter from your bank, broker or other nominee, along with proper identification, so that we can verify your right to attend. If you are a street name holder and you wish to vote your shares in person at the special meeting you also will need to obtain and produce at the special meeting a proxy executed in your favor from the broker, bank or other nominee that is the record holder of your shares of Common Stock. The proxy will need to be in proper form.

Q: What is a quorum requirement and how will it apply to the special meeting?

A: In order for any matter to be considered at the special meeting, there must be a quorum present. The presence, in person or represented by proxy, of the holders of a majority of the voting power of the shares of the Common Stock issued and outstanding and entitled to vote on such matters as of the Record Date for the meeting will constitute a quorum. Shares of Common Stock represented by proxies reflecting abstentions (but not broker non-votes (if any)) will be counted as present and entitled to vote for purposes of determining a quorum. If a quorum is not present, the stockholders entitled to vote at the meeting who are present or represented by proxy may adjourn the meeting until a quorum is present. See *The Special Meeting Record Date and Quorum* on page 79. In the Merger Agreement, Chiesi has agreed to vote its shares at the special meeting in favor of the adoption of the Merger Agreement. Assuming Chiesi does this, the quorum requirement will be satisfied.

Q: What vote of our stockholders is required to approve the proposal to adopt the Merger Agreement?

A: Two different stockholder approval requirements must be satisfied in order for the Merger Agreement to be adopted and for the Merger to be completed, as follows:

The first stockholder approval requirement, which is imposed under Delaware law, will be satisfied if stockholders holding at least a majority of the shares of the Common Stock outstanding and entitled to vote at the close of business on the Record Date vote **FOR** the proposal to adopt the Merger Agreement. In the Merger Agreement, Chiesi has agreed to vote its shares of Common Stock at the special meeting in favor of the adoption of the Merger Agreement. Assuming Chiesi does this, the first stockholder approval requirement will be satisfied.

The second stockholder approval requirement, the Majority-of-the-Minority Stockholder Approval Condition, which is imposed under a provision of the Merger Agreement that was negotiated by the Special Committee with Chiesi, will be satisfied if the holders of at least a majority of the outstanding shares of Common Stock that were outstanding at the close of business on the record date and therefore are eligible to be voted at the special meeting and at that time were not owned, directly or indirectly, by Chiesi, Chiesi US or any of their affiliates, by any officer or director of the Company or by any other person or entity having any equity interest in, or any right to acquire any equity interest in, Chiesi US or any person or entity of

which Chiesi US is a direct or indirect subsidiary, vote **FOR** the proposal to adopt the Merger Agreement. As of December 13, 2013, which is the Record Date, there were 26,919,071 shares of Common Stock outstanding. We estimate that the aggregate number of shares of Common Stock that were outstanding and entitled to vote at the close of business on the Record Date and were not owned by Chiesi or any of its subsidiaries or by any officer or director of the Company was 9,044,406, and accordingly the Majority-of-the-Minority Stockholder Approval Condition will be satisfied if not less than 4,522,204 of the shares of Common Stock that were outstanding and entitled to vote at the close of business on the Record Date and were not owned by Chiesi, Chiesi US or any of its subsidiaries or by any officer or director of the Company are voted **FOR** the proposal to adopt the Merger Agreement.

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Q: What will happen if I abstain from voting or fail to vote on the proposal to adopt the Merger Agreement?

A: A failure to vote your shares of Common Stock or an abstention from voting will have the same effect as a vote AGAINST the proposal to adopt the Merger Agreement. Abstentions will be included in the calculation of the number of shares of Common Stock represented at the special meeting for purposes of determining whether a quorum has been achieved. See *The Special Meeting Required Vote* on page 79. If you hold your shares in street name through a broker, bank or other nominee, you should follow the directions provided by your broker, bank or other nominee regarding how to instruct your broker, bank or other nominee to vote your shares. Without those instructions, your shares will not be voted, which will have the same effect as voting against the proposal to adopt the Merger Agreement.

Q: What will I receive if the Merger is completed?

A: If the Merger is completed, you will be entitled to receive $9.50 in cash, without interest and less any applicable withholding taxes, for each share of Common Stock that you own, unless you properly demand, and do not withdraw or lose, appraisal rights under Section 262 of the DGCL. For example, if you own 100 shares of Common Stock, you will be entitled to receive $950 in cash in exchange for your shares of Common Stock, without interest and less any applicable withholding taxes. You will not be entitled to receive shares in the surviving corporation or in Chiesi or any of its affiliates.

Q: Is the Merger expected to be taxable to me?

A: If you are a U.S. holder, the receipt of cash for your shares of Common Stock pursuant to the Merger generally will be a taxable transaction for U.S. federal income tax purposes. If you are a non-U.S. holder, the receipt of cash for your shares of Common Stock pursuant to the Merger will generally not be a taxable transaction for U.S. federal income tax purposes. See *Special Factors Material U.S. Federal Income Tax Consequences of the Merger* beginning on page 71. You should consult your own tax adviser regarding the particular tax consequences to you of the exchange of shares of Common Stock for cash pursuant to the Merger in light of your particular circumstances (including the application and effect of any state, local or foreign income and other tax laws).

Q: How will our directors and executive officers vote on the proposal to adopt the Merger Agreement?

A: The directors and current executive officers of the Company have informed the Company that, as of the date of the filing of this proxy statement, they intend to vote all shares of Common Stock owned by them in favor of the proposal to adopt the Merger Agreement. As of December 13, 2013, the Record Date, the directors and current executive officers owned, in the aggregate, 2,164,234 shares of Common Stock entitled to vote at the special meeting.

In connection with the Merger Agreement, Craig A. Collard, our Chairman, Chief Executive Officer and beneficial owner of 8.2% of our shares, and Cornerstone Biopharma Holdings, Ltd., an entity controlled by him, entered into a voting agreement with the Company, Chiesi and Chiesi US pursuant to which Mr. Collard and Cornerstone Biopharma Holdings, Ltd. agreed, subject to certain conditions, to vote, or cause to be voted, all of the outstanding

shares beneficially owned by them in favor of the proposal to adopt the Merger Agreement.

Shares owned by our executive officers and directors will not be included in the shares taken into account for purposes of the Majority-of-the-Minority Stockholder Approval Condition described above.

Q: What vote of our stockholders is required to approve other matters to be discussed at the special meeting?

A: The proposal to approve, on an advisory (non-binding) basis, the compensation that may become payable to certain of our executive officers in connection with the Merger, as disclosed in the table under *Special*

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Factors Potential Change of Control Payments to Executive Officers, including the associated footnotes and narrative discussion, and the proposal to approve the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies require the affirmative vote of the holders of a majority of the voting power of the Common Stock present or represented by proxy and voting thereon.

Q: How does the Board recommend that I vote?

A: The Board (acting without the participation of Dr. Failla and Mr. Vecchia, who recused themselves from all proceedings of our Board related to the Merger because of their affiliation with Chiesi), acting on the unanimous recommendation of the Special Committee, unanimously recommends that our stockholders vote:

FOR the proposal to adopt the Merger Agreement;

FOR the proposal to approve, on an advisory (non-binding) basis, the compensation that may become payable to certain of our executive officers in connection with the Merger, as disclosed in the table under *Special Factors Potential Change of Control Payments to Executive Officers*, including the associated footnotes and narrative discussion; and

FOR the proposal to approve the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to approve the proposal to adopt the Merger Agreement.

You should read *Special Factors Reasons for the Merger; Recommendation of the Board of Directors and the Special Committee* beginning on page 31 for a discussion of the factors that the Special Committee and the Board (acting without the participation of Dr. Failla and Mr. Vecchia) considered in deciding to recommend the approval of the Merger Agreement. See also *Special Factors Interests of the Company s Directors and Executive Officers in the Merger* beginning on page 65.

Q: Am I entitled to exercise appraisal rights instead of receiving the merger consideration for my shares of Common Stock?

A: Stockholders who do not vote in favor of the proposal to adopt the Merger Agreement are entitled to statutory appraisal rights under Delaware law in connection with the Merger. This means that if you comply with the requirements of Section 262 of the DGCL, you are entitled to have the fair value of your shares of Common Stock (as defined pursuant to Section 262 of the DGCL) determined by the Court of Chancery of the State of Delaware and to receive payment based on that valuation instead of receiving the merger consideration of $9.50 per share. The ultimate amount you would receive in an appraisal proceeding may be more than, the same as or less than the amount you would have received under the Merger Agreement. To exercise your appraisal rights, you must comply with the requirements of the DGCL. See *Rights of Appraisal* beginning on page 108 and the text of the Delaware appraisal rights statute, Section 262 of the DGCL, which is reproduced in its entirety as Annex C to this proxy statement.

Q: What effects will the Merger have on the Company?

A: The Common Stock is currently registered under the Securities Exchange Act of 1934, as amended (the Exchange Act), and is traded on the NASDAQ Capital Market (NASDAQ) under the symbol CRTX. As a result of the Merger, the Company will cease to have publicly traded equity securities and will be wholly-owned by Chiesi. Upon the consummation of the Merger, the Common Stock will no longer be listed (or eligible to be listed) on NASDAQ or any other stock exchange. Chiesi has advised us that following the consummation of the Merger, the registration of the Common Stock and our reporting obligations under the Exchange Act will be terminated upon application to the Securities and Exchange Commission (the SEC).

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Q: When is the Merger expected to be completed?

A: The parties to the Merger Agreement are working to complete the Merger as quickly as practicable. In order to complete the Merger, the Company must obtain the stockholder approvals described in this proxy statement and the other closing conditions under the Merger Agreement must be satisfied or (to the extent permissible under the Merger Agreement) waived. See *The Merger Agreement When the Merger Becomes Effective* beginning on page 85. The Company currently expects to hold a special meeting of its stockholders to vote on a proposal to adopt the Merger Agreement during the first quarter of 2014, and to complete the Merger promptly after the requisite stockholder votes are obtained. The Company cannot assure completion of the Merger by any particular date, or that it will occur at all. Because consummation of the Merger is subject to a number of conditions, the exact timing of the Merger cannot be determined at this time.

Q: What will happen if the Merger is not consummated?

A: If the proposal to adopt the Merger Agreement is not approved by the Company s stockholders, or if the Merger is not consummated for any other reason, the Company s stockholders will not receive any payment for their shares in connection with the Merger. Instead, the Company will remain a public company and shares of Common Stock will continue to be listed and traded on NASDAQ.

Q: What do I need to do now?

A: We urge you to read this proxy statement carefully, including its annexes and the documents referred to as incorporated by reference in this proxy statement, and to consider how the Merger affects you. If you are a stockholder of record, you can ensure that your shares are voted at the special meeting by submitting your proxy via:

mail, using the enclosed postage-paid envelope;

telephone, using the toll-free number listed on each proxy card; or

the Internet, at the address provided on each proxy card.

If you hold your shares in street name through a broker, bank or other nominee, you should follow the directions provided by your broker, bank or other nominee regarding how to instruct your broker, bank or other nominee to vote your shares. Without those instructions, your shares will not be voted, which will have the same effect as voting against the proposal to adopt the Merger Agreement.

Q: Should I send in my stock certificates or other evidence of ownership now?

A: No. After the Merger is completed, you will be sent a letter of transmittal with detailed written instructions for exchanging your shares of Common Stock for the merger consideration. If your shares of Common Stock are held in street name by your broker, bank or other nominee, you may receive instructions from your broker, bank or other nominee as to what action, if any, you need to take to effect the surrender of your street name shares in exchange for the merger consideration. **Do not send in your stock certificates now.**

Q: What happens if I sell my shares of Common Stock before completion of the Merger?

A: If you sell your shares of Common Stock, you will have transferred your right to receive the merger consideration in the Merger. In order to receive the merger consideration, you must hold your shares of Common Stock through the effective time (meaning the completion) of the Merger.

Q: Can I revoke my proxy?

A: Yes. You can revoke your proxy at any time before the vote is taken at the special meeting. If you are a stockholder of record, you may revoke your proxy by notifying the Company s Corporate Secretary in writing at Cornerstone Therapeutics Inc., Attention: Corporate Secretary, 1255 Crescent Green Drive, Suite

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250, Cary, North Carolina 27518, or by timely submitting a new proxy by telephone, the Internet or mail, in each case, dated after the date of the proxy being revoked. In addition, you may revoke your proxy by attending the special meeting and voting in person, although simply attending the special meeting will not cause your proxy to be revoked. If you hold your shares in street name and you have instructed a broker, bank or other nominee to vote your shares, the options described above for revoking your proxy do not apply, and instead you must follow the instructions received from your broker, bank or other nominee to revoke your proxy or submit new voting instructions.

Q: What does it mean if I get more than one proxy card or voting instruction card?

A: If your shares are registered differently or are held in more than one account, you will receive more than one proxy or voting instruction card. Please complete and return all of the proxy cards or voting instruction cards you receive (or submit each of your proxies by telephone or the Internet, if available to you) to ensure that all of your shares are voted.

Q: What is householding and how does it affect me?

A: The SEC s rules permit companies to send a single set of proxy materials to any household at which two or more stockholders reside, unless contrary instructions have been received, but only if the applicable company provides advance notice and follows certain procedures. In such cases, each stockholder continues to receive a separate notice of the meeting and proxy card. Certain brokerage firms may have instituted householding for beneficial owners of Common Stock held through brokerage firms. If your family has multiple accounts holding Common Stock, you may have already received householding notification from your broker. Please contact your broker directly if you have any questions or require additional copies of this proxy statement. The broker will arrange for delivery of a separate copy of this proxy statement promptly upon your written or oral request. You may decide at any time to revoke your decision to household, and thereby receive multiple copies.

Q: Who can help answer my other questions?

A: If you have more questions about the Merger, or require assistance in submitting your proxy or voting your shares or need additional copies of the proxy statement or the enclosed proxy card, please contact Georgeson Inc., which is acting as the Company s proxy solicitation agent and information agent in connection with the Merger.

480 Washington Boulevard, 26th Floor

Jersey City, NJ 07310

All Holders Call Toll Free: (888) 663-7851

Email: Cornerstone@georgeson.com

If your broker, bank or other nominee holds your shares, you should also call your broker, bank or other nominee for additional information.

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SPECIAL FACTORS

Background of the Merger

Chiesi s Initial 2009 Investment

On May 6, 2009, the Company and certain of its stockholders entered into a series of agreements with Chiesi. These agreements comprised (i) a stock purchase agreement between the Company and Chiesi, pursuant to which the Company issued an aggregate of 12,172,425 shares of Common Stock to Chiesi; (ii) a separate stock purchase agreement pursuant to which Chiesi purchased an aggregate of 1,600,000 shares of Common Stock owned by entities controlled by Mr. Collard and Steven M. Lutz, who was then an executive officer of the Company, for $5.50 per share in cash; (iii) a governance agreement, which expired on July 28, 2011, among the Company, Chiesi and certain of our stockholders; (iv) a license and distribution agreement (the U.S. CUROSURF® Agreement) between the Company and Chiesi under which Chiesi granted the Company exclusive U.S. distribution rights to CUROSURF, a natural lung surfactant approved by the U.S. Food and Drug Administration (the FDA) for the treatment of Respiratory Distress Syndrome in premature infants; and (v) a stockholders agreement, which was subsequently amended, among Chiesi and certain of our stockholders, including Mr. Collard, which among other things requires Mr. Collard to vote in favor of any transaction in which Chiesi or its affiliates would acquire all of our outstanding Common Stock. Pursuant to that stockholders agreement, Chiesi was granted an option to purchase shares of Common Stock owned by entities controlled by Mr. Collard and Mr. Lutz for $12.00 per share in cash. That option expired unexercised on July 28, 2011.

Following the completion of the share purchases provided for in these agreements, Chiesi held a majority of the outstanding shares of Common Stock.

Chiesi s Subsequent Share Purchases

On December 16, 2010, entities controlled by Mr. Collard and Mr. Lutz sold 450,000 shares of Common Stock to Chiesi for $6.02 per share.

On March 16, 2012, an entity controlled by Mr. Collard sold 1,443,913 shares of Common Stock to Chiesi for $6.25 per share.

On November 29, 2011, December 14, 2011, March 12, 2012, March 14, 2012 and March 15, 2012, Chiesi acquired an aggregate of 21,200 shares of Common Stock at prices ranging from $5.0649 to $6.08 per share, in open market transactions. As described below, in order to retain certain corporate governance rights pursuant to our certificate of incorporation, Chiesi must beneficially own (together with its affiliates) not less than 40% of the outstanding shares of Common Stock (calculated on a fully diluted basis). Chiesi has advised us that the principal purpose of these open market purchases was to maintain its percentage ownership after the Company issued additional shares of Common Stock (including pursuant to restricted stock grants) or issued stock options.

Chiesi s Corporate Governance Rights

The Company s certificate of incorporation provides that, so long as Chiesi beneficially owns (together with its affiliates) not less than 40% of the outstanding shares of Common Stock on a fully diluted basis (as defined in our certificate of incorporation), we must seek approval from Chiesi to, among other things:

consummate an acquisition of any business or assets for a price in excess of $25,000,000;

sell, lease, transfer or otherwise dispose of a business or assets for a price in excess of $25,000,000 (other than a sale in the ordinary course of business);

issue any equity security or other capital stock other than pursuant to employee incentive plans or upon the exercise of any option, warrant, or similar right; and

repurchase or redeem any equity security other than redemptions required by the terms thereof, purchases made at fair market value in connection with any deferred compensation plan and repurchases of unvested or restricted stock issued pursuant to any employee, officer, director or consultant compensation plan.

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U.S. CUROSURF Agreement

Chiesi manufactures all of our requirements for CUROSURF, which we began promoting and selling in September 2009. Pursuant to the U.S. CUROSURF Agreement, we purchase inventory from Chiesi at a defined supply price by product as set forth in that agreement. Our cumulative purchases of CUROSURF inventory from Chiesi from the beginning of the arrangement through September 30, 2013 aggregated approximately $97.2 million. As of September 30, 2013, we had accounts payable of approximately $2.8 million due to Chiesi relating to the U.S. CUROSURF Agreement.

Term Loan Facility

On June 21, 2012, we entered into a credit agreement with Chiesi (the Credit Agreement) in order to finance a portion of the costs of our acquisition of EKR Holdings, Inc. Pursuant to the Credit Agreement, Chiesi made two loans to the Company: (i) a loan of $60.0 million (Term Loan A), and (ii) a loan of $30.0 million (Term Loan B, and, together with Term Loan A, the Term Loans). All of the obligations owed by us under the Credit Agreement are guaranteed by our domestic subsidiaries and are secured by a security interest in substantially all of our assets and our domestic subsidiaries assets. Chiesi is the administrative agent and collateral agent under the Credit Agreement.

Term Loan A and Term Loan B bear interest at rates of 7.5% and 6.5% per year, respectively, payable quarterly in arrears. Term Loan A requires quarterly principal payments of $3.5 million commencing in the fiscal quarter ending December 31, 2014 with any remaining balance being due at maturity. The Term Loans are due and payable in full on June 23, 2017, unless previously prepaid or, in the case of Term Loan B, unless previously converted into shares of Common Stock pursuant to the conversion right described below.

We have the right to prepay the Term Loans, in whole or in part, without any premium or penalty. Any partial prepayment must be in the amount of $5.0 million or, if more than $5.0 million, in whole multiples of $1.0 million, in each case plus any accrued and unpaid interest.

We are required to prepay all or a portion of the Term Loans: (i) if our ratio of consolidated secured debt to Consolidated EBITDA (as defined in the Credit Agreement) is at least 2 to 1 for any fiscal year ending on or after December 31, 2013, by using 50% of our Consolidated Excess Cash (as defined in the Credit Agreement), or (ii) if we undertake certain asset sales or sales of capital stock and do not reinvest the proceeds according to the terms of the Credit Agreement.

Until June 21, 2014, Chiesi has the option to convert all or a portion of the Term Loan B principal loan balance into shares of Common Stock at a conversion price of $7.098 per share, subject to adjustment under certain conditions. Any such conversion must be in a minimum amount of $5.0 million unless the outstanding principal balance is less than $5.0 million. At September 30, 2013, the outstanding balance of Term Loan B was $30.0 million, which was convertible into 4,226,542 shares of Common Stock.

BETHKIS® License and Distribution Agreement

On November 6, 2012, we entered into a license and distribution agreement with Chiesi pursuant to which we obtained an exclusive license to the U.S. commercial rights to Chiesi s BETHKIS product. Under the agreement, we made an initial payment to Chiesi of $1.0 million and are required to make a $2.5 million payment upon the first commercial sale of the product in the United States. We are also required to pay certain costs related to a Phase IV clinical trial with respect to the product and quarterly royalties based on a percentage of net sales.

Chiesi s February 2013 Take-Private Proposal

On February 18, 2013, Chiesi delivered a letter to our Board in which Chiesi proposed a transaction in which it would acquire all of the outstanding shares of Common Stock not already owned by Chiesi for a price of between $6.40 and $6.70 per share in cash (the Initial Proposal). Chiesi s letter contained a statement to the effect that

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Chiesi had no interest in selling its controlling interest in the Company or in considering any other strategic transaction involving the Company. The Company issued a press release on February 20, 2013 announcing receipt of the letter.

Appointment of the Special Committee and its Advisers

On February 22, 2013, following its receipt of the Initial Proposal, our Board established a special committee consisting solely of independent and disinterested directors (the Special Committee). The resolutions adopted by our Board when it established the Special Committee granted the Special Committee exclusive authority to, among other things, review and evaluate the Initial Proposal, pursue and consider alternatives to the Initial Proposal, reject the Initial Proposal or any other proposal that might be made and negotiate the terms of any proposal or transaction that the Special Committee might determine to pursue. The Special Committee was authorized to select and retain its own legal and financial advisers. The resolutions adopted by the Board also authorized the Company to enter into agreements with the members of the Special Committee granting them rights to indemnification and expense advancement. The Board appointed Michael Enright, Christopher Codeanne, James Harper, Michael Heffernan and Laura Shawver as the members of the Special Committee. None of the members of the Special Committee is a current or former officer or employee of the Company or is a current or former director, officer or employee of Chiesi, its subsidiaries or its affiliates (except that each of them is a director of the Company). Under applicable NASDAQ rules, a director qualifies as an independent director if, in the opinion of our Board, that person does not have a relationship which would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. These rules also specify certain persons whose relationships with the Company would preclude them from being considered independent. Our Board has determined that each of the members of the Special Committee is an independent director as defined under the applicable NASDAQ rules, and in making that determination our Board has concluded that each member of the Special Committee is free of any relationship that would interfere with the exercise of his or her independent judgment in carrying out his or her responsibilities as a director or a member of the Special Committee and was a disinterested director with respect to the proposal from Chiesi.

On February 22, 2013, the Special Committee held an initial meeting by telephone. At the meeting, Mr. Enright was elected by the members of the Special Committee to serve as chairman.

The Company issued a press release on February 25, 2013 announcing the appointment of the Special Committee.

The Special Committee proceeded to select and engage legal and financial advisers.

Clifford Chance US LLP (Clifford Chance) was appointed as legal counsel to the Special Committee. Clifford Chance previously had represented the Company s independent directors in matters involving the Company s dealings with Chiesi, including in connection with the Company s negotiations with Chiesi in 2012 in respect of the Credit Agreement. Clifford Chance confirmed that it was free of conflicts and in particular that Chiesi was not a current client and had not been a client of the firm for at least the previous three years.

On March 13, 2013, the Company entered into indemnification agreements with each member of the Special Committee (the Special Committee Indemnification Agreements). In those agreements the Company granted various rights, including rights to indemnification and expense advancement, to the members of the Special Committee in recognition of the incremental personal exposure each member of the Special Committee might face by reason of serving on the Special Committee.

Lazard was appointed as financial adviser to the Special Committee. The members of the Special Committee received presentations from Lazard and four other potential financial advisers regarding their relevant experience and

qualifications. Lazard was selected because the team of investment bankers Lazard said would work on the engagement collectively had substantial knowledge of and experience in advising participants in healthcare

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industry mergers and acquisitions transactions, combined with substantial experience in advising special committees of boards of directors in controlling shareholder take-private transactions and this distinguished Lazard from the other investment banking firms interviewed by the Special Committee. Since the appointment of Lazard, no consideration has been given by the Special Committee to the engagement of an alternative financial adviser. Prior to its retention, Lazard advised the Special Committee that neither Lazard nor any other entity in the Lazard group was then engaged by Chiesi nor any of its subsidiaries (including the Company) to perform financial advisory services, nor had Chiesi or any of its subsidiaries had financial advisory engagements with Lazard or any other entity in the Lazard group during the previous three years. In addition, Lazard informed the Special Committee of current and recent past financial advisory relationships with or connections to Chiesi, including that (i) an employee of Lazard S.r.l. (Lazard Italy) is a member of the board of directors of Chiesi, (ii) an analyst at Lazard Italy is the nephew of the Chairman of Chiesi, and (iii) bankers at the Lazard group (including a senior member of the proposed team for this engagement) had solicited Chiesi. At the request of the Special Committee, Lazard agreed that, until the earlier of the completion of a transaction within the scope of Lazard s engagement or the termination or expiration of Lazard s engagement, Lazard would not enter into any financial advisory engagement with Chiesi without the Special Committee s consent. In addition, Lazard advised the Special Committee that no officer or employee of Lazard Italy would participate in this engagement or have access (electronic or otherwise) to any non-public materials or information relating to this engagement. After considering the foregoing and consulting with counsel, the Special Committee concluded that Lazard s current and past relationships with Chiesi should not prevent Lazard from serving as financial adviser to the Special Committee.

On March 20, 2013, the Company issued a press release announcing that the Special Committee had retained Clifford Chance and Lazard as its legal and financial advisers, respectively.

Chiesi advised the Special Committee that it had retained Morgan, Lewis & Bockius LLP (Morgan Lewis) and Jefferies International Limited (Jefferies) as its legal and financial advisers, respectively.

The Special Committee s Deliberations and Negotiations

Following its appointment of advisers, the Special Committee met regularly to discuss, oversee and receive reports on the process of obtaining financial and other information, performing various financial analyses and holding discussions with Chiesi and its advisers. From March through mid-September 2013, the Special Committee usually met at least weekly.

From the time the Special Committee was established by the Board through September 15, 2013, the Special Committee met (in person or by telephone) a total of 37 times. The Special Committee determined that, before engaging with Chiesi, it wished to be fully informed about the Company s existing business and future prospects and to receive a comprehensive set of valuation analyses from Lazard.

On March 20, 2013, members of the Special Committee, representatives from Lazard, representatives from Clifford Chance and representatives from the Company s management participated in an organizational and introductory telephonic conference call to discuss next steps and process.

During telephonic meetings of the Special Committee held on March 22, 2013 and March 29, 2013, Lazard informed the Special Committee that two third parties had separately contacted Lazard regarding each third party s potential interest in acquiring certain of the Company s products if in a transaction with Chiesi it transpired that Chiesi did not wish to acquire all of the Company s products or assigned only minimal value to any of the Company s products. Each third party had made clear to Lazard that it was not interested in making an offer to acquire the entire Company. Neither of the third parties that contacted Lazard identified particular products that they were interested in or ranges of value they might be willing to pay.

On April 4, 2013, the members of the Special Committee and its advisers participated in a telephonic conference call with representatives from the Company s management. Management briefed the Special Committee on the

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most recent financial forecast prepared by management (the F-1 Forecast) and responded to questions regarding the assumptions underlying the F-1 Forecast and the likelihood that the Company s actual future financial performances could be better or worse than forecast. The members of the Special Committee inquired in particular into the likelihood that the Company would achieve its forecasted results for RETAVASE®, a recombinant plasminogen activator that was approved by the FDA in 1996 for the use in the management of acute myocardial infarction in adults, and CRTX 081, which the Special Committee referred to as RETAFLO®. The members of the Special Committee focused on these products because they were aware that the products had significant potential value but were scheduled to be introduced some time in the future, after various regulatory, manufacturing and other technical issues had been resolved. The Special Committee told Lazard that it wanted to ensure that the risks of delay or even failure in dealing with those issues, the potential for cost overruns, as well as the potential for those products to out-perform management s estimates, were appropriately taken into account for the purposes of Lazard s analysis. At the same meeting, the Special Committee gave direction as to how diligence requests by Chiesi were to be addressed, and also directed that management should continue to update the F-1 Forecast in the ordinary course.

On April 10, 2013, the Special Committee held an in-person meeting at the offices of Clifford Chance with representatives from Lazard and Clifford Chance. At the meeting, Lazard made a presentation to the Special Committee that included market perspectives on the Company and Lazard s preliminary financial analysis of the Company. During the presentation, the Lazard representatives advised that the trading price of the Common Stock was impacted by a variety of factors and did not necessarily reflect the intrinsic value of the Common Stock. The Special Committee discussed the importance of seeking to determine the intrinsic value of the Common Stock and of basing future negotiations with Chiesi on intrinsic value rather than trading prices. Clifford Chance gave a presentation regarding the Special Committee s fiduciary obligations and potential transaction structures.

At a telephonic meeting of the Special Committee held on April 19, 2013, the Special Committee directed Lazard to provide the F-1 Forecast that the Special Committee had been reviewing to Chiesi s financial adviser, Jefferies, subject to receipt of a confidentiality agreement signed by Chiesi. A confidentiality agreement was negotiated by Clifford Chance and Morgan Lewis, and was subsequently entered into with Chiesi, and the F-1 Forecast was provided to Jefferies on April 20, 2013 as directed by the Special Committee. At the direction of the Special Committee, Lazard told Jefferies that (i) the F-1 Forecast had been prepared by management in the ordinary course of business principally for budgeting purposes and probably was conservative, (ii) the Special Committee believed that there was significant upside not reflected in the F-1 Forecast but that it was a reasonable starting point for discussion and (iii) the F-1 Forecast gave effect to the Company s purchase of rights to PERTZYE®, a pancreatic enzyme replacement therapy for patients with cystic fibrosis, that was being negotiated by the Company but had not yet been completed.

At a telephonic meeting of the Special Committee held on April 26, 2013, Mr. Enright stated he had received an email from Ugo Di Francesco, the Chief Executive Officer of Chiesi, seeking the Special Committee s response to Chiesi s Initial Proposal. The Special Committee determined that it would complete its initial diligence and financial analysis before engaging with Chiesi. During the same meeting, representatives from Lazard presented an update to its preliminary financial analysis of the Company. In addition to directing that its advisers assist it in achieving a comprehensive understanding of factors relevant to the Company s value, the Special Committee also had directed its advisers to assist it in understanding what alternatives might be available to a transaction with Chiesi, including the alternative of the Company remaining as a publicly traded company with Chiesi continuing to hold a majority of its shares, as at present. This topic was discussed at some length at the April 26 meeting and in connection with the discussion, Lazard provided some hypothetical calculations of prices at which the Company s shares might trade in the future if the Company performed in accordance with the F-1 Forecast. The Special Committee also considered, and discussed with its advisers, whether to solicit indications of interest from third parties for the acquisition of the Company. On this alternative the Special Committee concluded that, in light of Chiesi s statement in its February 18 letter to the effect that it was not interested in selling its shares of the Common Stock, it would not be productive to

solicit third-party interest, unless and until

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Chiesi changed its position. The Special Committee also discussed, at this and other meetings, that Lazard s preliminary financial analyses showed a lower range of illustrative value derived from a going concern discounted cash flow (DCF) analysis than from a sum-of-the-parts DCF analysis and the reasons for this difference. Finally, the parties discussed the potential strategies for Lazard s discussions with Jefferies scheduled for later that day. The Special Committee instructed Lazard to reiterate that the F-1 Forecast that had been provided had been prepared by management for budgeting purposes and was believed by the Special Committee to be conservative. Lazard also was directed to make the point that even based on management s conservative F-1 Forecast, conventional valuation metrics suggested a value range of $11.00 to $12.00 per share, which was materially higher than the $6.40 to $6.70 price per share that had been proposed by Chiesi in February. The Special Committee discussed that the metrics presented by Lazard formed an appropriate basis for determining the intrinsic value of the Common Stock, and that intrinsic value, and not an analysis based on premiums to previous trading prices, was the appropriate basis for negotiations.

At Lazard s meeting with Jefferies on April 26, 2013, Lazard informed Jefferies that, based on Lazard s preliminary financial analysis, the data would support a value up to $12.00 per share for the Common Stock.

On May 2, 2013, representatives of Lazard and Jefferies held another call to discuss Chiesi s response to the Special Committee s valuation. Jefferies relayed Chiesi s increased price proposal of $8.25 per share and indicated that it had been directed by Chiesi to inform Lazard that Chiesi was not willing to raise its price further. During the call with Lazard, it was noted that Chiesi, as the majority stockholder of the Company, had the right to remove and replace all of the non-Chiesi directors and the Company s senior management team. The Company subsequently has been advised that this fact was noted during the call solely to establish a common understanding of the contractual rights granted to Chiesi in 2009 in connection with Chiesi s acquisition of a majority of the Company s outstanding shares of Common Stock as well as certain state law rights held by Chiesi arising from its ownership of a majority of the Company s outstanding Common Stock. These rights are discussed in more detail under *Special Factors Background of the Merger Chiesi s Corporate Governance Rights* beginning on page 16. The members of the Special Committee were aware that Chiesi has the right to remove and replace them and other directors. They believe that Chiesi s right to remove and replace them at any time had no impact on their deliberations.

On May 3, 2013, the Special Committee held a telephonic meeting with its legal and financial advisers. Representatives from Lazard discussed their May 2 call with Jefferies and Chiesi s revised proposal of $8.25 per share. That price represented a 23% premium to the high end of the range in the Initial Proposal and a slight discount to the May 2, 2013 closing price of the Common Stock, which was $8.26 per share. Using written materials distributed to the Special Committee in advance of the call, Lazard reviewed various financial aspects of Chiesi s new $8.25 per share proposal. The Special Committee then had an extensive discussion about how best to respond to Chiesi s revised proposal. The Special Committee discussed the merits of a counter-offer at $11.00 per share, then agreed to reconvene on May 6, 2013.

At a telephonic meeting of the Special Committee held on May 6, 2013, the Special Committee continued its discussion of how to respond to Chiesi s revised proposal of $8.25 per share. The members of the Special Committee agreed that, based on the work done to date, a sale to Chiesi for fair value was likely to be in the best interests of the public stockholders and a better outcome than the only alternative realistically available, which was the status quo. A sale of the Company to a third party was impracticable, because Chiesi had confirmed that it was not interested in selling its shares. In addition, after the Company publicly disclosed its receipt of the Initial Proposal and the appointment of the Special Committee, no third party had indicated a desire to make an offer to acquire it (although our financial adviser was approached by parties that indicated a potential willingness to consider buying any assets that Chiesi did not want). After consultation with its advisers, the Special Committee decided not to pursue sales of individual products because any sale of an individual product likely would result in a tax liability for the Company that could materially reduce the financial benefit to be realized from the sale; Chiesi never indicated it did not want

any particular product; Chiesi never told the Special Committee how much value it attached to individual products, so that the Special Committee would not know the

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after-tax reserve price to be applied in seeking offers for these products; and the parties that had expressed interest had done so only in a preliminary manner, had not followed up and therefore did not appear especially interested.

Later that day on May 6, 2013, representatives of Lazard held a telephone call with representatives of Jefferies at which they relayed the Special Committee s counter-proposal of $11.00 per share.

On May 8, 2013, Mr. Enright received a telephone call from Mr. Di Francesco in which Mr. Di Francesco expressed his disappointment and frustration at the Special Committee s $11.00 per share counter-proposal. Mr. Di Francesco suggested that given the lack of progress (from Chiesi s perspective) in the negotiations, he was considering whether the parties should enter into a cooling-off period, or whether Chiesi should terminate discussions altogether. Mr. Di Francesco s comments made clear that his principal focus was on the premium to the price at which the Common Stock was trading before the Initial Proposal, and that he believed that on that basis Chiesi s revised proposal of $8.25 per share should be attractive and $11.00 per share was too high. This perspective on value was different from the Special Committee s perspective, which was that the intrinsic value of the Company and its Common Stock should be the guiding factor in price negotiations. Mr. Enright responded by email to express the Special Committee s view that the financial analyses performed for the Special Committee to date, based on the management-prepared F-1 Forecast, supported the $11.00 per share value reflected in the Special Committee s counter-proposal.

On May 9, 2013, the Company publicly announced its financial results for the first quarter of 2013.

Also on May 9, 2013, the Company provided Lazard with management s most recently-updated F-1 Forecast.

At a telephonic meeting of the Special Committee held on May 10, 2013, Mr. Enright reported on his recent communications with Mr. Di Francesco regarding Chiesi s reaction to the Special Committee s $11.00 per share counter-proposal. Representatives of Lazard then discussed the Company s announcement on May 9, 2013 of its financial results for the first quarter of 2013. Those results exceeded the forecast of the only equity market analyst who regularly publishes research on the Company, but were materially below the first quarter performance projected in the F-1 Forecast. Lazard advised the Special Committee that this failure to achieve the levels of performance reflected in the F-1 Forecast may be used by Chiesi as a basis to press for a lower value per share. Lazard s representatives reported they had scheduled a meeting with the Company s management team to discuss the F-1 Forecast and the reasons for the recent discrepancy in performance. The Special Committee also discussed the fact that the Company recently had completed its purchase of exclusive U.S. marketing rights to PERTZYE.

Also on May 10, 2013, Mr. Di Francesco sent an email to Mr. Enright in which Mr. Di Francesco expressed his regret that the Special Committee had not submitted a revised (lower) counter-proposal. Mr. Enright responded by email on May 13, 2013, stating that the Special Committee would not revise its counter-proposal, and encouraged Mr. Di Francesco to have Jefferies contact Lazard to discuss Chiesi s and the Special Committee s respective views on intrinsic value.

On May 13, 2013, representatives of Lazard held a call with the Company s management to discuss management s recent updates to the F-1 Forecast.

On May 14, 2013, representatives of Lazard and Jefferies held a call during which Jefferies relayed Chiesi s high-level issues with the F-1 Forecast, including differences in perspectives on sales potential, probability and timing of regulatory approvals and amounts budgeted for costs associated with product development and commercialization.

On May 16, 2013, Mr. Enright and representatives from Lazard, Chiesi and Jefferies had a telephonic meeting during which Chiesi s views on the F-1 Forecast were discussed.

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At a telephonic meeting of the Special Committee held on May 17, 2013, Mr. Enright summarized the status of discussions with Chiesi. It appeared to Mr. Enright, based on his communications with Mr. Di Francesco, that Chiesi s approach to the price negotiation focused principally on the fact that its proposal represented a substantial premium to the levels at which the Common Stock had traded shortly before Chiesi made its Initial Proposal. This was in contrast to the Special Committee s view that the intrinsic value of the Company and its Common Stock should form the basis for price negotiations. Mr. Enright reported on Mr. Di Francesco s email to him of May 10, 2013 and Mr. Enright s response sent on May 13, 2013. At the same meeting, representatives from Lazard updated the Special Committee on their discussion with the Company s management about the recent updates to the F-1 Forecast and the Company s failure to achieve the operating results projected in the F-1 Forecast for the first quarter of 2013. Lazard s representatives also discussed their recent communications with Jefferies, during which Jefferies outlined a number of areas in which Chiesi s views as to the likely future performance of several of the Company s products differed materially from the results projected in the F-1 Forecast. Following this discussion, Lazard presented an updated financial analysis based on the updates to the F-1 Forecast that had been provided by management on May 9, 2013.

On May 21, 2013, members of the Special Committee held a diligence meeting with the Company s management to ask questions regarding the F-1 Forecast, including the various assumptions underlying the F-1 Forecast.

Also on May 21, 2013, Lazard and Jefferies had a call to further discuss the F-1 Forecast.

At a telephonic meeting of the Special Committee held on May 24, 2013, members of the Special Committee discussed their May 21 diligence call and their findings. In this part of the meeting, the Special Committee conducted a product-by-product analysis and review of the prospective timing, cost, revenues and expenses associated with each of the Company s products. Having considered the key product-level assumptions that formed the basis for the F-1 Forecast, as well as Chiesi s feedback provided during the May 16, 2013 telephonic meeting, the Special Committee directed Lazard to input certain adjustments to the financial projections contained in the F-1 Forecast. The adjustments directed by the Special Committee reduced the revenue forecast and gross margins for Company s Hydrocodone Polistirex and Chlorpheniramine Polistirex Extended Release Suspension product, an FDA-approved antitussive/antihistamine combination product that is a generic equivalent for the product currently sold under the Tussionex® Pennkinetic® brand name in the United States, which the Special Committee referred to as CRTX 067, and increased the projected product development expenses and reflected a delayed launch for RETAFLO and RETAVASE. In deciding to make these adjustments, the members of the Special Committee relied on their understanding of the facts, as further informed by their most recent diligence activities, and their industry knowledge and expertise, which they concluded gave them useful insights into all of the issues being addressed. The Special Committee then instructed Lazard to inform Jefferies that the Special Committee had reviewed the F-1 Forecast (as recently updated) and that, at the Special Committee s direction, Lazard would input certain adjustments to the financial projections contained in the F-1 Forecast.

At a telephonic meeting of the Special Committee held on May 28, 2013, representatives from Lazard presented an updated preliminary financial analysis, which reflected the adjustments to the financial projections contained in the F-1 Forecast that had been made at the direction of the Special Committee. Lazard noted that, even after giving effect to these adjustments, Chiesi s most recent proposal of $8.25 per share remained at the low end of the sum-of-the-parts DCF analysis, which was the analysis Lazard viewed as most relevant in this situation. The Special Committee s members agreed that they continued to be of the view that a transaction for fair value would likely be in the best interests of the public stockholders and that negotiations with Chiesi presented a good opportunity to maximize stockholder value, provided fair value could be obtained. The Special Committee discussed a variety of possible negotiating strategies and their likely outcomes. There was general agreement that if the Special Committee refused to change its prior $11.00 per share counter-proposal, the result could be the loss of any possible transaction. The Special Committee also discussed that, since its $11.00 proposal, the first-quarter shortfall against the F-1 Forecast had

undermined its negotiating position somewhat, and that the adjustments recently made at the Special Committee s direction to the financial projections contained in the F-1 Forecast had a downward impact in the range of values shown in Lazard s updated preliminary financial

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analyses. The Special Committee instructed Lazard to convey to Jefferies a revised counter-proposal of $10.25 per share. The Special Committee also resolved that if Chiesi rejected this counter-proposal or made an unacceptably low counteroffer, Lazard should convey a request that Chiesi agree to a process by which it would sell its shares to the highest auction bidder.

On May 29, 2013, representatives of Lazard held a telephonic meeting with representatives of Jefferies to provide an update on the Special Committee s deliberations, revisions to the financial projections contained in the F-1 Forecast and views on value. Lazard relayed the Special Committee s revised counter-proposal of $10.25 per share. Lazard s representatives also communicated the Special Committee s request that, if Chiesi chose to reject this counter-proposal, Chiesi instead should agree to support and vote in favor of a sale of the Company to any third-party acquirer that the Special Committee might select after seeking out third-party acquisition proposals. The Special Committee made this request because, although the resolutions adopted by our Board when it established the Special Committee expressly authorized, and placed no restrictions on, solicitation of third party acquisition proposals by the Special Committee, the Special Committee believed it would be counterproductive to seek such proposals, following Chiesi s public announcement that it was not interested in selling its shares, unless Chiesi were to announce a willingness to support a third party acquisition proposal. Other than its public announcement, Chiesi did not seek to impose restrictions on the Special Committee s potential solicitation of third party acquisition proposals and the Special Committee did not agree to any such restrictions.

At a telephonic meeting of the Special Committee held on May 31, 2013, representatives from Lazard summarized their discussion with Jefferies held on May 29, 2013, noting that Jefferies had indicated that Chiesi had stated it would have no interest in supporting a process in which third parties were given the opportunity to acquire the entire Company. After an extensive discussion about negotiating tactics, Lazard reminded the Special Committee that a contingent value right (CVR) potentially could be used to bridge the value gap.

At a telephonic meeting of the Special Committee held on June 7, 2013, Mr. Enright and Mr. Heffernan updated the parties on recent developments relating to ZYFLO®, which presently is the only FDA-approved leukotriene synthesis inhibitor indicated for prophylaxis and chronic treatment of asthma in adults and children 12 years of age and older, which could present a potential source of additional value. To date, market sources had not detected any signs that a generic competitor to ZYFLO would be launched in the U.S. in the near future. The members of the Special Committee noted that the closing price of the Common Stock on June 5, 2013 was $9.99, and that during the course of that day, the stock had traded as high as $10.23. The Special Committee discussed the extent to which the increased trading price should impact the negotiating posture with Chiesi. The Special Committee determined that its revised financial projections derived from the F-1 Forecast and the financial analyses performed on the basis of those financial projections were the most appropriate basis on which to evaluate and pursue fair value analyses, and that on this basis the Special Committee s most recent proposal of $10.25 per share remained appropriate even in light of recent developments.

On June 11, 2013, the Company received a letter from Exela Pharma Sciences, LLC (Exela), which advised the Company of the filing of a supplemental new drug application (sNDA) with the FDA seeking regulatory approval for nicardipine hydrochloride RTU injectable formulations, which would directly compete with CARDENE I.V. In its letter, Exela alleged that U.S. Patent Nos. 7,612,102 and 7,659,291 relating to the composition, formulations and methods of using CARDENE I.V. (the Patents) are invalid, unenforceable and/or will not be infringed by Exela s manufacture, use or sale of the products described in the sNDA.

On June 12, 2013, the Special Committee held a telephonic meeting with its advisers and members of the Company s management to discuss and evaluate the new development regarding CARDENE I.V. The Special Committee and its advisers discussed how this development would affect the negotiations with Chiesi. It was reasonable to expect that

Chiesi would try to use this development to press for a lower price. A representative from Lazard noted that CARDENE I.V. represented approximately $3.25 of the value per share in Lazard s most recent base case sum-of-the-parts DCF analysis.

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At a telephonic meeting of the Special Committee held on June 21, 2013, representatives from Lazard provided an update on their recent discussions with Jefferies. Lazard advised the Special Committee that in Lazard s opinion, in light of the recent adverse development regarding CARDENE I.V., the justification for a price of $10.25 per share had been weakened significantly. Even though the Company s management had expressed optimism about the outcome of the CARDENE I.V. situation, the uncertainty created by the challenge to the Company s rights in respect of the product was a negative factor. The Special Committee and its advisers discussed next steps, including negotiation strategy and the potential use of a CVR to bridge any valuation gap. The Special Committee discussed that a CVR-based transaction structure that paid a net present value of $10.25 per share to the public stockholders, provided the CARDENE I.V. situation was resolved in a favorable manner, would be logical and consistent with the Special Committee s view of intrinsic value. The Special Committee also discussed recent indications that the uncertainty surrounding the Special Committee s process may be distracting employees and management, and the need to encourage management to remain focused on executing the Company s business plan.

At a telephonic meeting of the Special Committee held on June 28, 2013, Mr. Enright and Mr. Heffernan discussed their separate recent conversations with Mr. Collard regarding how the CARDENE I.V. situation was being handled, and Mr. Collard s recent discussions with intellectual property counsel in that regard. Mr. Heffernan reported some new developments with respect to certain of the Company s products: some regulatory and production issues affecting CRTX 067 appeared on the way to being satisfactorily resolved and the launches of both PERTZYE and BETHKIS were on schedule. Representatives from Lazard reported on their discussions with Jefferies on June 21, 2013 and June 27, 2013, during which Jefferies indicated that, in light of the CARDENE I.V. situation, Chiesi had stated it would no longer be willing to pursue a transaction at its previously proposed price of $8.25 per share, but that it might consider the possibility of a CVR. The Special Committee discussed the potential use of a CVR and tactics to be used in negotiating with Chiesi.

At a telephonic meeting of the Special Committee held on July 12, 2013, Mr. Enright reported on a phone call he had received from Mr. Di Francesco in which Mr. Di Francesco asked when Chiesi could expect a revised proposal from the Special Committee. Mr. Di Francesco appeared to contemplate that the Special Committee would propose a transaction involving a CVR. Mr. Enright had responded that the Special Committee s view on value had not changed and that while the Special Committee was willing to entertain other ways of achieving a net present value of $10.25 per share for the public stockholders, including through the use of a CVR, any transaction would have to include an upfront cash payment higher than the prices at which the stock had recently traded. Mr. Di Francesco stated that, absent concessions from the Special Committee, Chiesi might soon terminate discussions. Mr. Enright informed him that the Special Committee was not opposed to announcing to the public that no deal had been reached. The Special Committee then discussed valuation and the impact on the financial model of a potential generic competition for CARDENE I.V. beginning in 2016 (based on the Special Committee s understanding of the applicable regulatory regime, it had concluded that 2016 was the earliest time that generic competition could begin). The Special Committee and its advisers also discussed CVRs, including litigation and securities issues typically associated with CVRs, possible structures and triggers used in CVRs and Chiesi s likely position on those points. Lazard suggested that, in the event a CVR was used, it should be based on the post-closing performance of all products owned by the Company at the time of any sale to Chiesi, as well as the FDA approval of RETAVASE and RETAFLO, not just on the outcome of the CARDENE I.V. litigation. The Special Committee concurred with this portfolio approach to CVR design.

On July 15, 2013, the Company s Board met by conference call to discuss the potential CARDENE I.V. litigation. During the call the Company s intellectual property legal counsel reported that the Company had received a second notice letter from Exela relating to a third, newly-issued patent held by the Company relating to CARDENE I.V., which would be addressed in a separate lawsuit.

At a telephonic meeting of the Special Committee held on July 16, 2013, the Special Committee discussed the information provided regarding CARDENE I.V. during the recent Board call. Mr. Heffernan reported that the Company s recent financial performance had been strong and that the Company was making good progress in its

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product development initiatives for CRTX 067, RETAVASE and BETHKIS. Representatives from Lazard provided an update on their conversation on July 12, 2013 with Jefferies, during which Jefferies stated that it appeared that CARDENE I.V. accounted for a significant percentage of the Company s value and might need to be addressed through a CVR. The Special Committee then discussed next steps and strategy, including the potential use of a CVR and the issues typically associated with them. The Special Committee concluded that Mr. Enright should communicate to Mr. Di Francesco that, prior to the Company s quarterly earnings call scheduled for August 6, 2013, the Special Committee and Chiesi should jointly decide whether there was a basis to move forward. If not, the Company should publicly announce that no deal had been reached, on or before the earnings call.

On July 18, 2013, Mr. Enright spoke to Mr. Di Francesco by telephone. Mr. Di Francesco asked when Chiesi could expect to receive a revised proposal from the Special Committee, based on a CVR structure. Mr. Enright responded that unless Chiesi agreed in advance that the terms of any CVR-based transaction would include an upfront cash payment in an amount above the level at which the Common Stock recently had been trading, there was no reason to spend time on designing and negotiating the terms of a CVR, which would be complex and would take a substantial amount of time. On July 18, 2013, the closing price of the Common Stock was $8.04.

At a telephonic meeting of the Special Committee held on July 19, 2013, Mr. Enright reported on his discussion with Mr. Di Francesco on July 18, 2013. The Special Committee discussed the use of a CVR, including the litigation and securities laws issues, possible structures, triggers and the general framework. The Special Committee directed Lazard and Clifford Chance to prepare a draft of a CVR term sheet for review by the Special Committee.

On July 23, 2013, Mr. Di Francesco called Mr. Enright and presented a proposal for an upfront cash payment of $8.15 per share, plus a two-step, two-year CVR that would pay additional amounts based on ZYFLO maintaining market exclusivity, leading to a total maximum nominal value (before any time value discount or risk adjustment) of up to $10.15 per share.

On July 24, 2013, the Company issued a press release announcing that it had filed a complaint in the United States District Court for the District of Delaware alleging that Exela had infringed on its CARDENE I.V. patents.

At a telephonic meeting of the Special Committee held on July 24, 2013, representatives from Lazard discussed their conversation with Jefferies in which the parties discussed, among other things, the recent increase in the Company s share price, which was currently trading at $8.99 per share. The Special Committee then discussed possible CVR terms. The Special Committee authorized Lazard to present to Jefferies a counter-proposal of an upfront cash payment of $8.85 per share, plus a three-year CVR that would pay up to an additional $8.45 per share in cash, consisting of (i) $0.50 per quarter for each quarter that ZYFLO maintained market exclusivity, (ii) a payment based on total net revenue outperformance relative to the F-1 Forecast and (iii) a payment of $1.75 per share upon favorable resolution of the CARDENE I.V. litigation. The counter-proposal was designed to produce a risk-adjusted net present value (NPV) of $10.25 per share, assuming the CARDENE I.V. litigation was resolved in the Company s favor. The Special Committee discussed that this proposal would be consistent with its views of intrinsic value.

At a telephonic meeting of the Special Committee held on July 26, 2013, representatives from Lazard updated the Special Committee on their July 25 discussion with Jefferies during which the Special Committee s CVR counter-proposal was presented.

On July 27, 2013, Clifford Chance contacted Morgan Lewis to discuss the Special Committee s views regarding intrinsic value and to further discuss the CVR proposal.

On August 1, 2013, Mr. Enright and Mr. Heffernan, together with the Special Committee s legal and financial advisers, held a conference call with a Chiesi team headed by Mr. Di Francesco and Giacomo Chiesi, who were

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accompanied by representatives from Morgan Lewis and Jefferies. The Chiesi representatives on the call challenged the Special Committee s view that a risk-adjusted NPV of $10.25 per share was an appropriate valuation, and asked specific questions about the Special Committee s view of the CARDENE I.V. litigation and the progress of the CRTX 067, RETAVASE and RETAFLO product launches. Chiesi s representatives said Chiesi wanted a CVR based only on ZYFLO in order to simplify the CVR structure but that it might be willing to modestly increase the upfront cash payment above the amount of $8.15 per share that it previously had proposed on July 23, 2013. Chiesi s representatives indicated that, despite the significant increase in the risk profile of the Company due to the CARDENE I.V. litigation, the acquisition of the Company still had strategic value to Chiesi. Chiesi s representatives indicated that the upfront payment of approximately $8.15 per share proposed by Chiesi did not reflect any CARDENE I.V.-related discount and was substantially similar to Chiesi s prior $8.25 per share offer made before the challenges to the Company s rights to CARDENE I.V. had been announced, and accordingly, in Chiesi s opinion, a separate CARDENE I.V. CVR was not appropriate. Mr. Enright and Mr. Heffernan responded that it was unlikely the Special Committee would accept this approach.

At a telephonic meeting of the Special Committee held on August 2, 2013, Mr. Enright and Mr. Heffernan reported on their discussion with Chiesi and its advisers held on August 1, 2013. The Special Committee noted that it was concerned that Chiesi was seeking to reduce the consideration it wished to pay based on the negative implications of the CARDENE I.V. litigation, but that it was not willing to entertain a CVR structure that would pay back any CARDENE I.V. related discount to the public stockholders if there was a positive resolution of that litigation, which seemed reasonably likely. Chiesi s proposal also would deliver additional value to the public stockholders only if ZYFLO remained free of generic competition for an extended period of time, which the members of the Special Committee all believed was unlikely. Under the CVR terms proposed by Chiesi, the Company might outperform the F-1 Forecast and yet there might be no CVR payment because the outperformance could come from products other than ZYFLO. The members of the Special Committee unanimously agreed that Chiesi s most recent CVR proposal was not acceptable. The Special Committee determined to instead suggest an all-cash transaction at $9.75 per share. The Special Committee arrived at the $9.75 proposal by taking its prior $10.25 offer and discounting it to reflect some of the potential loss of value associated with the CARDENE I.V. situation. It was agreed that if the Special Committee and Chiesi were not able to reach agreement in the next few days, the Special Committee was prepared to issue a press release in the following week announcing that negotiations had been terminated. The Special Committee then authorized Mr. Enright and Mr. Heffernan to convey the Special Committee s response to Mr. Chiesi and Mr. Di Francesco, and to set a deadline of August 6, 2013 to reach an agreement in principle.

On August 2, 2013, Mr. Enright contacted Mr. Di Francesco to convey the Special Committee s message rejecting Chiesi s most recent CVR-based proposal, and Mr. Enright stated that if an agreement was not reached by August 6, 2013, the Special Committee was prepared to issue a press release after that date announcing that negotiations had been terminated.

On August 4, 2013, Mr. Enright contacted Mr. Di Francesco stating that the Special Committee might be willing to accept an all-cash upfront payment of $9.75 per share.

On August 5, 2013, Mr. Di Francesco called Mr. Enright to propose an all-cash transaction at $9.00 per share. After being pressed by Mr. Enright, Mr. Di Francesco said that Chiesi might be able to offer $9.25 per share after he had further discussions with the Chiesi board and its shareholders. Mr. Di Francesco described this proposal as final. Mr. Enright indicated that the Special Committee would likely reject this proposal but acknowledged that, in light of the CARDENE I.V. litigation, he believed the Special Committee might be willing to support a transaction at $9.50 per share, but this would need to be discussed with the Special Committee. Mr. Di Francesco and Mr. Enright agreed that negotiations would continue. Mr. Di Francesco proposed that the parties resume their discussions on August 26, 2013.

At a telephonic meeting of the Special Committee held on August 5, 2013, Mr. Enright reported on his discussions with Mr. Di Francesco held on August 4 and August 5. It was noted that the most recently discussed

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price of $9.00 to $9.25 per share was below the levels at which the Common Stock recently had traded, but close to the midpoint of the range of values implied by Lazard s sum-of-the-parts DCF analysis. The Special Committee authorized Mr. Enright to urge Mr. Di Francesco to increase the price being offered and to avoid delaying the negotiations until the end of August.

On August 6, 2013, the Company announced its earnings for the second quarter of 2013, which were above the analyst estimates and the levels projected in the F-1 Forecast.

At a telephonic meeting of the Special Committee held on August 9, 2013, representatives from Lazard presented an updated preliminary financial analysis. The Special Committee discussed the impact on valuation and noted that the price range of $9.00 to $9.25 per share most recently discussed with Chiesi was within the range of value indicated by Lazard s sum-of-the-parts DCF analysis. Lazard advised, without recommending any specific amount of consideration to be paid in the Merger, that, based on prior discussions with the Special Committee, $9.25 per share would be a good result, but that the Special Committee could and should continue to negotiate to obtain a higher price. The Special Committee then determined that as a next step, Mr. Enright should contact Mr. Di Francesco and Mr. Chiesi to propose an in-person meeting.

On August 10, 2013, Mr. Enright held a conference call with Messrs. Chiesi and Di Francesco. Chiesi s representatives indicated that Chiesi wished to hold firm at $9.00 per share. During the call, Mr. Enright stated that the Special Committee believed its previously-proposed price of $9.75 per share was appropriate; that he believed there might be sufficient support within the Special Committee for a price of $9.50 per share; and that there was no support from the Special Committee for a price below $9.50 per share. Mr. Enright confirmed that no press release announcing an end to negotiations would be issued if discussions with Chiesi were continuing.

On August 12, 2013, Lazard and Jefferies held a call to discuss the status of negotiations between the Special Committee and Chiesi.

On August 15, 2013, the Company received a letter from a second company advising of the filing of an abbreviated new drug application in respect of CARDENE I.V. The letter asserted intellectual property claims similar to those previously asserted by Exela.

At a telephonic meeting of the Special Committee held on August 16, 2013, Mr. Enright reported on his conversation with Mr. Chiesi and Mr. Di Francesco on August 10, 2013. The Special Committee and its advisers discussed the latest development in respect of CARDENE I.V. and its potential impact on valuation and the negotiations with Chiesi. The Special Committee was told that there continued to be no indication that generic competition for ZYFLO would be launched in the near future.

At a telephonic meeting of the Special Committee held on August 23, 2013, the Special Committee discussed the CARDENE I.V. situation, potential outcomes of the related litigation and the impact of that situation on valuation. The Special Committee also discussed the illustrative value of PERTZYE reflected in Lazard s sum-of-the-parts DCF analysis. The Special Committee directed Lazard to perform additional analyses on the impact of the CARDENE I.V. litigation and the valuation of PERTZYE based on various assumptions provided by the Special Committee. The Special Committee then determined that its negotiating position would be that the recent developments related to CARDENE I.V. had not changed the Special Committee s position on value.

From August 28, 2013 through August 30, 2013, Mr. Enright and representatives from Chiesi exchanged several emails. Mr. Enright requested an improved offer from Chiesi, highlighting CARDENE I.V. s strong recent sales performance and the lack of evidence of a ZYFLO generic.

At a telephonic meeting of the Special Committee held on August 30, 2013, Mr. Enright reported on his email correspondence with Chiesi, noting that Mr. Di Francesco suggested that the Special Committee could expect to receive feedback from Chiesi on September 2, 2013. Mr. Enright also discussed a conversation with Mr. Collard

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regarding the Company s strong recent performance and near-term prospects. The parties noted that the Company s strong performance strengthened the Special Committee s negotiating position. It was also noted, however, that these recent positive developments appeared to be temporary in nature. CARDENE I.V. s strong recent sales performance appeared to be due to shortages of competing products that were expected to end soon. Similarly, it seemed likely that ZYFLO was unlikely to remain free of generic competition for very long. The Special Committee then authorized Mr. Enright to communicate to Chiesi that the Special Committee expected an improved proposal and that, if no improved proposal was forthcoming, the parties must determine whether to terminate discussions.

On September 5, 2013, Mr. Di Francesco called Mr. Enright and expressed his willingness to meet in person in New York to attempt to reach agreement on price. Mr. Enright and Mr. Di Francesco subsequently agreed the meeting would be held on September 11, 2013. In anticipation of the meeting, Morgan Lewis sent an initial draft of the Merger Agreement to Clifford Chance.

At a telephonic meeting of the Special Committee held on September 6, 2013, Mr. Enright reported on his recent discussions regarding an in-person meeting with Chiesi s representatives. Representatives of Lazard advised that, subject to internal review and concurrence, they expected Lazard would be able to render a fairness opinion if the parties agreed to a price within the range currently being discussed. The Special Committee also discussed the prices at which the Common Stock had been trading recently. The Special Committee determined that its focus should continue to be on intrinsic value, and that current trading prices had only limited relevance.

On September 11, 2013, representatives of Chiesi and Morgan Lewis met with Mr. Enright and Mr. Heffernan, along with representatives from Clifford Chance and Lazard. The parties agreed in principle on a transaction at $9.50 per share.

From September 11, 2013 through September 15, 2013, Morgan Lewis and Clifford Chance negotiated and exchanged multiple drafts of the Merger Agreement and related materials. The principal points advanced through the exchange of drafts were (i) elimination of provisions that would have required payment by the Company to Chiesi of a break fee or expense reimbursement under certain circumstances; (ii) addition of provisions requiring Chiesi to vote its shares in favor of the Merger and leaving the Special Committee in place through the completion of the Merger, with authority to enforce the Merger Agreement on behalf of the Company; and (iii) reduction of the scope of the Company s representations and warranties, and adjustments to other provisions, designed to increase the likelihood that, upon receipt of the requisite stockholder approvals, the Merger would be completed. The draft provided for the non-waivable Majority-of-the-Minority Stockholder Approval Condition.

On September 15, 2013, the Special Committee convened at the offices of Clifford Chance in New York, with one member participating by video link and one by telephone, along with their legal and financial advisers. At the invitation of the Special Committee, Messrs. Collard, McEwan and Robert Stephan, a director (participating by phone), were present for portions of the meeting. Mr. Enright stated that the purpose of the meeting was to review, analyze and make a recommendation regarding Chiesi s most recent proposal of $9.50 per share. He explained that this proposal had been made following negotiations with representatives from Chiesi during the in-person meeting on September 11, 2013 in New York. Mr. Enright then confirmed that the members of the Special Committee had received and had reviewed copies of the draft Merger Agreement and related materials distributed by Clifford Chance on September 13, 2013 and by Lazard on September 14, 2013. The Special Committee asked the Company s CEO and CFO for their views regarding the financial projections and assumptions underlying the financial analysis used at the Special Committee s direction by Lazard, including the adjustments that had been made to the projections derived from the F-1 Forecast that had been made at the Special Committee s direction. Both officers responded that they believed the financial projections and assumptions used in the financial analysis were reasonable and appropriate, and that the adjustments made for valuation purposes to the data in the F-1 Forecast were reasonable and appropriate. Mr. Enright

then invited representatives from Lazard to discuss the financial and related aspects of the transaction.

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The representatives from Lazard provided an overview of the financial terms of the proposed transaction, as well as the history of the negotiations between Chiesi and the Special Committee. Lazard s representatives stated that they had observed that the Special Committee had been vigorous in its negotiations with Chiesi. Messrs. Enright and Heffernan confirmed that they believed, based on their participation in the most recent negotiations with Chiesi, that Chiesi was unwilling to pay more than $9.50 per share at the present time.

Lazard made a detailed presentation on its financial analyses and rendered to the Special Committee its oral opinion, which was subsequently confirmed by delivery of a written opinion, that, as of September 15, 2013, based on and subject to the assumptions, procedures, factors, limitations and qualifications set forth in the Lazard opinion, the consideration to be paid to the holders of Common Stock (other than Chiesi, Chiesi US and stockholders of the Company who are entitled to and properly demand appraisal of their shares) was fair, from a financial point of view, to such holders. The full text of Lazard s written opinion, dated September 15, 2013, which sets forth, amo