CORNERSTONE THERAPEUTICS INC
Form PRER14A
December 13, 2013



**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**SCHEDULE 14A**

**(Amendment No. 2)**

**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:

x Preliminary Proxy Statement

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

¨ Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material under Rule 14a-12

**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

¨ Fee paid previously with preliminary materials.

x 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:

34,150.12

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

Schedule 14A

(3) Filing Party:

Cornerstone Therapeutics Inc.

(4) Date Filed:

November 27, 2013

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**PRELIMINARY COPY SUBJECT TO COMPLETION**

**CORNERSTONE THERAPEUTICS INC.**

**1255 CRESCENT GREEN DRIVE, SUITE 250**

**CARY, NORTH CAROLINA 27518**

[ ], 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 [ ], 2013

and is first being mailed to stockholders on or about [ ], 2013.

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**PRELIMINARY COPY SUBJECT TO COMPLETION**

**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.

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 [ ], 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 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.

*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

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 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 [ ] 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 [ ], and accordingly the Majority-of-the-Minority Stockholder Approval Condition will be satisfied if not less than [ ] 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.

**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, [ ] 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

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: [ ]

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 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 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

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 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 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 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 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 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.

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, among other things, the assumptions made, procedures followed, matters considered and qualifications and limitations on the review undertaken by Lazard, is attached as Annex B to this proxy statement and is incorporated by reference herein. A discussion of Lazard s analysis is described under *Special Factors Opinion of Lazard Frères & Co. LLC* beginning on page 35 of this proxy statement.

In connection with Lazard s delivery of its opinion as to fairness, at the Special Committee s request, representatives of Lazard confirmed that Lazard and its affiliates had complied with the restrictions it agreed with the Special Committee in connection with its engagement.

Following this, representatives from Clifford Chance gave a detailed presentation regarding the terms of the proposed Merger Agreement and the points that had been negotiated with Chiesi and Morgan Lewis.

At this point, Messrs. Collard, McEwan and Stephan left the meeting. The Special Committee proceeded to deliberate regarding the merits of Chiesi s proposal. Following extensive discussion, and after considering the foregoing and the factors described under *Special Factors Reasons for the Merger; Recommendation of the Board of Directors and the Special Committee* beginning on page 31 of this proxy statement, the Special Committee unanimously determined that the Merger Agreement, the Merger and the other transactions contemplated thereby are advisable, fair to and in the best interests of the Company s stockholders (other than Chiesi and its subsidiaries). The Special Committee unanimously adopted resolutions recommending that the Board adopt resolutions (i) approving and declaring advisable the Merger Agreement and the transactions contemplated by the Merger Agreement, including the Merger, and (ii) recommending (subject to the terms of the Merger Agreement) that the Company s stockholders vote to adopt the Merger Agreement.

Later on September 15, 2013, following the Special Committee meeting, the Board held a meeting to consider the potential transaction with Chiesi. Mr. Vecchia and Dr. Failla, directors affiliated with Chiesi, did not participate in the meeting of the Board, having recused themselves from all meetings of the Board relating to the negotiations with Chiesi. During the meeting, Mr. Enright presented to the other directors the Special Committee s unanimous recommendation in favor of the proposed transaction and summarized the principal reasons for the Special Committee s recommendation.

Mr. Collard advised the other directors that, at Chiesi s request, he had agreed to sign a voting agreement on behalf of himself and certain entities controlled by him. Mr. Collard first was asked to enter into the voting agreement on September 11, 2013, when Mr. Di Francesco had told him that Chiesi wanted a voting agreement with him and certain entities controlled by him. Mr. Collard received a draft of the voting agreement on September 13, 2013. Mr. Collard noted that the voting agreement would not affect the outcome of the shareholder approval process for the Merger, because his shares do not count toward satisfaction of the Majority-of-the-Minority Stockholder Approval Condition.

Mr. Collard told the other directors that Chiesi had not offered, and he had not requested or accepted, any additional consideration for entering into the voting agreement.

Following additional discussion, and after considering the foregoing, the members of the Board (acting without the participation of Mr. Vecchia and Dr. Failla) unanimously adopted resolutions in which the Board

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(i) determined that it was advisable, fair to and in the best interests of the Company s stockholders (other than Chiesi and its subsidiaries) that the Company enter into the Merger Agreement and the transactions contemplated by the Merger Agreement, including the Merger, and (ii) resolved to recommend (subject to the terms of the Merger Agreement) that the Company s stockholders vote to approve and adopt the Merger Agreement.

Following the Board meeting, Chiesi and the Company executed the Merger Agreement.

**Reasons for the Merger; Recommendation of the Board of Directors and the Special Committee**

***The Special Committee: Recommendation***

The Special Committee, after consultation with its outside counsel and financial adviser, at a meeting held on September 15, 2013, unanimously determined that the Merger Agreement and the transactions contemplated by the Merger Agreement, including the Merger, are fair to and in the best interests of our stockholders other than Chiesi and its subsidiaries and that it is advisable for the Company to enter into the Merger Agreement. The Special Committee also unanimously recommended that our Board approve and declare advisable the Merger Agreement and the transactions contemplated thereby and that our Board recommend that our stockholders vote to adopt the Merger Agreement. While the Special Committee considered the fairness from the perspective of all of our stockholders other than Chiesi and its subsidiaries, the members of the Special Committee determined that the same fairness analysis, and the same factors summarized below, were applicable to an evaluation of fairness to the Company s unaffiliated security holders (as defined in Rule 13e-3 under the Exchange Act, in this case, the stockholders other than (i) Chiesi and its subsidiaries and (ii) the Company s directors and officers). Accordingly, the Special Committee s findings as to fairness include a finding that the Merger Agreement and the Merger are substantively and procedurally fair to the unaffiliated security holders.

In concluding that the Merger Agreement and the Merger are substantively and procedurally fair to the unaffiliated security holders, the Special Committee noted that the Company s directors and executive officers have interests in the Merger that are different from, or in addition to, the interests of the unaffiliated security holders. The Special Committee concluded that notwithstanding those different or additional interests the Merger Agreement and the Merger are substantively and procedurally fair to the unaffiliated security holders.

In evaluating the Merger Agreement, the Merger and the other transactions contemplated by the Merger Agreement, the Special Committee discussed certain matters relating to the Company with the Company s senior management team, consulted with its own legal and financial advisers, and considered a number of factors relevant to both substantive and procedural fairness, including, but not limited to, the following material factors (not necessarily in order of relative importance):

- the Company s historical and current financial performance and results of operations, and general economic and stock market conditions;

- the specialty pharmaceutical market in which we operate appears to the Special Committee to have become increasingly competitive;

the observed and anticipated impacts of that increased competition, including the likelihood that our ability to acquire rights to potentially profitable products on attractive terms has been and will be reduced, and our competitors have become larger and more likely to use aggressive tactics, including by asserting challenges to our intellectual property rights and litigating those challenges;

the other risks to which our business is subject, including the risks that other companies may introduce products that compete with ours, causing us to lose sales volume and/or pricing power, that manufacturing or production problems can adversely affect our sales volumes and profitability and that our future introductions of our pipeline products could be delayed or could fail to occur altogether;

the technical, regulatory and other issues that must be addressed before the Company can produce its RETAVASE and RETAFLO products in commercial quantities, and the risk that the process of addressing those issues could take longer or cost more money than anticipated, or that the Company could fail to address some or all of those issues, with the result that the commercial launch of one or more of those products might be delayed, be more costly (and therefore less profitable) than anticipated or might never occur;

our management s projections of our future financial performance, the likelihood of achieving those projections and the potential consequences of any failure to achieve those projections;

our management s projections of our financial performance in 2014 were materially lower than the results projected to be reached in 2013 (based in significant part on the recent expiration of the patents covering ZYFLO, and our management s view that we should expect generic competition for that product that will reduce our sales volume and profitability);

the Special Committee s conclusion, based on the history of the Special Committee s negotiations with Chiesi, that the merger consideration of $9.50 per share was the highest price per share for the Common Stock that Chiesi was willing to pay at the time of those negotiations;

the current and past trading price of our Common Stock and the fact that the per-share merger consideration to be received in the Merger represents (i) a premium of approximately 78% over our closing price of $5.35 on February 15, 2013, the last trading day before Chiesi made the Initial Proposal, and (ii) a premium of approximately 42% over the high end of the Initial Proposal;

the Special Committee s belief that the Merger is more favorable to our stockholders than the alternatives to the Merger, which belief was formed based on the Special Committee s review, with the assistance of our management and the Special Committee s advisers, of potential strategic alternatives available to the Company;

the Initial Proposal made clear, and Chiesi subsequently had confirmed, that Chiesi is not interested in selling its shares, thereby making an alternative change of control transaction impracticable, coupled with the fact that since we publicly disclosed the Initial Proposal and the appointment of the Special Committee, no third party has indicated a desire to make an offer to acquire us (although our financial adviser was approached by parties that indicated a potential willingness to consider buying any of our assets that Chiesi did not want);

the relatively small size of our public float and the relatively small average trading volume of our shares, which tend to make our share trading price volatile and make our Common Stock a relatively less attractive investment for many institutional stockholders;

only one financial analyst regularly publishes reports and recommendations regarding our Common Stock;

the all-cash per share merger consideration will provide our stockholders with the ability to monetize their investment in the Company in the near future, while avoiding long-term business risk, and while also providing them with certainty of value for their shares of our Common Stock;

the Special Committee s understanding of the nature of our businesses, operations, financial condition, earnings and prospects, including our prospects if we do not complete the Merger;

the Special Committee s understanding of the nature of the specialty pharmaceuticals industry, the level of competition in that industry and the manner in which the industry is likely to change over time, coupled with the broad range of pharmaceutical industry experience of the members of the Special Committee;

the negotiation process that led to the final Merger terms and the procedural safeguards built into that process, including, but not limited to, the use of a Special Committee composed of independent and disinterested directors and the fact that the Special Committee, together with its advisers, met 37 times, of which its financial adviser was in attendance for 32 meetings, between February 22, 2013 and September 15, 2013, the date the Merger Agreement was signed;

other than their receipt of directors fees, the rights to indemnification and expense advancement provided for in the Special Committee Indemnification Agreements and the rights to indemnification, expense advancement and liability insurance coverage and acceleration of vesting of stock options provided for in the Merger Agreement, members of the Special Committee do not have interests in the Merger different from, or in addition to, those of the Company s stockholders generally;

the financial analyses presented by Lazard and the oral opinion delivered by Lazard to the Special Committee, which was subsequently confirmed in writing, to the effect that as of September 15, 2013 and based upon and subject to the assumptions, procedures, factors, limitations and qualifications set forth in Lazard s written opinion, the consideration to be paid to the holders of Common Stock in the Merger (other than Chiesi, Chiesi US and those holders who are entitled to and have properly exercised appraisal rights under Delaware law) was fair, from a financial point of view, to those holders, and the financial analyses that Lazard performed in connection with rendering the Lazard opinion to the Special Committee as summarized under *Special Factors Opinion of Lazard Frères & Co. LLC* supported such a fairness determination and were expressly adopted by the Special Committee as its own;

the multiples for the Company shown in the summary of Lazard s Selected Companies Analysis (Enterprise Value/2013E Net Revenue-1.2x; Enterprise Value/2014E Net Revenue-1.2x; Enterprise Value/2013 EBITDA-4.0x; Enterprise Value/2014 EBITDA-5.2x) beginning on page 43 were calculated based on the Company s $5.50 closing share price as of February 19, 2013, the last trading date before the public announcement of Chiesi s offer. Three out of four of the transaction multiples also exceed the related Low multiple reflected in Lazard s Selected Companies Analysis. While the multiples for the Selected Companies Analysis were calculated based on the Company s closing share price as of February 19, 2013, the multiples for the transaction shown in the summary of Lazard s Selected Precedent Transactions Analysis (Enterprise Value/LTM Net Revenue-2.1x; Enterprise Value/LTM EBITDA-6.0x; Enterprise Value/Forward Net Revenue-2.1x; Enterprise Value/Forward EBITDA-8.7x) beginning on page 42 were calculated by Lazard based on the merger consideration of $9.50 per share. Three out of four of these transaction multiples exceed the Low multiple calculated by Lazard with respect to the selected transaction as shown beginning on page 42. Since the merger consideration of $9.50 per share was within each of the ranges of illustrative implied values derived by Lazard s Selected Companies Analysis and Selected Precedent Transactions Analysis, the Special Committee believes that those analyses support its fairness determination;

the likelihood that the Merger would be completed, based on, among other things (not necessarily in order of relative importance):

Chiesi s reputation and its ability to complete an acquisition transaction of this size;

Chiesi s understanding of the Company and level of experience with businesses of a similar nature to the Company;

the nature of the conditions to the completion of the Merger, including the fact that there is no financing or due diligence condition to the completion of the Merger in the Merger Agreement; and the Company s ability, pursuant to the Merger Agreement, to seek specific performance to prevent breaches of the Merger Agreement by Chiesi and to specifically enforce the terms of the Merger Agreement, subject to certain limitations.

the termination date under the Merger Agreement allows for sufficient time to complete the Merger;

the Merger Agreement permits the Special Committee and the Board, under certain circumstances, to change or withdraw their respective recommendations that our stockholders vote to approve the Merger Agreement;

the Merger Agreement contains the non-waivable Majority-of-the-Minority Stockholder Approval Condition to the consummation of the Merger requiring that, in addition to the vote of stockholders that is otherwise required under Delaware law, the Merger Agreement must be approved by the holders of a majority of the shares of Common Stock not held by Chiesi or any of its subsidiaries or by any of our officers; and

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- the availability of appraisal rights under the DGCL to holders of our Common Stock who comply with all of the required procedures under the DGCL, which allows those holders to seek appraisal of the fair value of their shares of our Common Stock as determined by the Delaware Court of Chancery.

The Special Committee also considered a variety of potentially negative factors in its deliberations concerning the Merger Agreement and the Merger, including, but not limited to, the following (not necessarily in order of relative importance):

- completion of the Merger will end our stockholders ability to participate in any future earnings growth and future appreciation on the value of our Common Stock;
- the merger consideration of $9.50 per share is lower than the closing price of $9.74 on September 13, 2013, the last trading day before the public announcement of the Merger Agreement, and lower than the prices at which the Common Stock has traded at various times in the previous three months;
- the only securities analyst who regularly publishes reports and recommendations regarding our Common Stock most recently published a one-year price target of $14.00 per share;
- the significant costs involved in connection with entering into and completing the Merger and the substantial time and effort required of our management to complete the Merger and related disruptions to our business operations;
- the risk that the proposed Merger might not be completed in a timely manner or at all;
- the restrictions imposed under the Merger Agreement on the conduct of our business prior to the completion of the Merger, which, subject to specific exceptions, could delay or prevent us from pursuing business opportunities that may arise or certain other actions we would otherwise take with respect to our operations absent the pending completion of the Merger;
- the risk that the announcement and pendency of the Merger, or failure to complete the Merger, may cause harm to relationships with our employees, vendors and customers and may divert management and employee attention away from the day-to-day operation of our business;
- an all-cash transaction such as the one proposed here will be taxable to our stockholders for U.S. federal income tax purposes;
- certain of our directors and executive officers may have interests in the Merger that are different from, or in addition to, our stockholders; and

Chiesi s controlling position in the Company and stated unwillingness to sell its shares made it impracticable to solicit third party proposals to acquire the Company that might have resulted in a higher price per share than the merger consideration.

The foregoing discussion of certain factors considered by the Special Committee is not intended to be exhaustive, but rather includes the factors considered by the Special Committee to be material. The Special Committee collectively reached the conclusion to determine that the Merger Agreement and the transactions contemplated thereby, including the Merger, are substantively and procedurally fair to and in the best interests of our stockholders (including the unaffiliated stockholders) other than Chiesi and its subsidiaries and to recommend the approval of the Merger Agreement by the Board in light of the various factors described above and other factors that the members of the Special Committee believed were appropriate. In view of the wide variety of factors considered by the Special Committee in connection with its evaluation of the proposed Merger and the complexity of these matters, the Special Committee did not consider it practical, and did not attempt, to quantify, rank or otherwise assign relative weights to the specific factors it considered in reaching its decision and did not undertake to make any specific determination as to whether any particular factor, or any aspect of any particular factor, was favorable or unfavorable to the ultimate determination of the Special Committee. Rather, the Special Committee made its recommendation based on the totality of information presented to it and the investigation conducted by it. In considering the factors discussed above, individual members of the Special Committee may have given different weights to different factors.

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The Special Committee did not expressly consider the liquidation value of the Company in determining the fairness of the Merger but noted, based on its discussions of the financial analyses presented by Lazard, that the sum-of-the-parts DCF analysis presented by Lazard and relied on by the Special Committee was substantially similar to a liquidation analysis.

The Special Committee also did not consider net book value, which is an historical accounting measure, in determining the fairness of the Merger, because of its belief that net book value is not a material indicator of the value of the Company or other specialty pharmaceutical companies. The Special Committee did not believe that net book value accurately reflects the Company s intrinsic value. The Company s net book value per share as of September 30, 2013 was approximately $6.95 (calculated based on 26,882,463 shares of Common Stock outstanding), which is lower than the $9.50 per share merger consideration.

In its analysis the Special Committee did not take into account the prices paid by Chiesi and its affiliates during the past two years. The prices paid in those purchases appeared to be based on prevailing market prices at the times of the purchases, and thus did not provide a useful basis for determining intrinsic value. The Special Committee noted that in each case the price paid by Chiesi in those previous purchases was materially lower than $9.50 per share.

The Company is not aware of any firm offers having been made during the past two years for (i) a merger or consolidation transaction between the Company and another company; (ii) the sale or other transfer of all or any substantial part of the Company s assets; or (iii) a purchase of the Company s shares that would enable the purchaser to exercise control over the Company (other than the share purchases made by Chiesi and its affiliates as discussed above). Accordingly, no such firm offers were considered by the Special Committee in connection with its fairness analysis.

***Our Board of Directors Recommendation***

Our Board (other than Dr. Failla and Mr. Vecchia, who recused themselves from all board discussions of Chiesi s proposal), acting upon the unanimous recommendation of the Special Committee, at a meeting on September 15, 2013, 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 Company s stockholders (including the unaffiliated stockholders);

- approved and declared advisable the Merger Agreement and the transactions contemplated by the Merger Agreement, including the Merger; and

- 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 these determinations, the Board (acting without the participation of Dr. Failla and Mr. Vecchia) considered a number of factors, including the following factors:

the Special Committee s analysis, conclusions and unanimous determination, which the Board adopted, that the Merger Agreement, the Merger and the other transactions contemplated by the Merger Agreement are advisable, substantively and procedurally fair to and in the best interests of our stockholders (including the unaffiliated stockholders) other than Chiesi and its subsidiaries and the Special Committee s unanimous recommendation that the Board approve and declare advisable the Merger Agreement and the transactions contemplated by the Merger Agreement and determine to recommend that our stockholders adopt the Merger Agreement;

the Special Committee is 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;

the Special Committee had followed a thorough and extensive process of developing financial analyses and then negotiating vigorously with Chiesi; and

notwithstanding that the Lazard opinion was provided for the information and assistance of the Special Committee, with Lazard s consent, the Board considered the fact that the Special Committee received an oral opinion from Lazard, which was subsequently confirmed in writing, to the effect that as of September 15, 2013 and based upon and subject to the assumptions, procedures, factors, limitations and qualifications set forth in the Lazard written opinion, the consideration to be paid to the holders of Common Stock in the Merger (other than Chiesi, Chiesi US and those holders who are entitled to and have properly exercised appraisal rights under Delaware law) was fair, from a financial point of view, to those holders.

The foregoing discussion of the factors considered by the Board is not intended to be exhaustive, but rather includes the material factors considered by the Board. The Board collectively reached the conclusion to approve the Merger Agreement, the Merger and the other transactions contemplated by the Merger Agreement in light of the various factors described above and other factors that the members of the Board believed were appropriate. In view of the wide variety of factors considered by the Board in connection with its evaluation of the proposed Merger and the complexity of these matters, the Board did not consider it practical, and did not attempt, to quantify, rank or otherwise assign relative weights to the specific factors it considered in reaching its decision and did not undertake to make any specific determination as to whether any particular factor, or any aspect of any particular factor, was favorable or unfavorable to the ultimate determination of the Board. Rather, the Board made its recommendation based on the totality of information presented to it and the investigation conducted by it. In considering the factors discussed above, individual directors may have given different weights to different factors. In light of the procedural protections described above (specifically, the role performed by the Special Committee and the inclusion in the Merger Agreement of the Majority-of-the-Minority Shareholder Approval Condition), the Board did not consider it necessary to retain an unaffiliated representative to act solely on behalf of our unaffiliated stockholders for purposes of negotiating the terms of the Merger Agreement or preparing a report concerning the fairness of the Merger Agreement and the Merger.

**Our Board (acting without the participation of Dr. Failla and Mr. Vecchia) unanimously recommends that you vote FOR the proposal to adopt the Merger Agreement.**

In considering the recommendation of the Board with respect to the proposal to adopt the Merger Agreement, you should be aware that our directors and executive officers may have interests in the Merger that are different from, or in addition to, yours. The Board was aware of and considered these interests, to the extent such interests existed at the time, among other matters, in evaluating and negotiating the Merger Agreement and the Merger, and in recommending that the Merger Agreement be adopted by our stockholders. For more information regarding these interests, see *Special Factors Interests of the Company s Directors and Executive Officers in the Merger* beginning on page 65.

**Opinion of Lazard Frères & Co. LLC**

On September 15, 2013, at a meeting of the Special Committee held to evaluate the Merger, Lazard rendered its oral opinion to the Special Committee, subsequently confirmed in writing (which we refer to as the Lazard opinion ), 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, the Company and its subsidiaries and other than the stockholders who are entitled to and properly demand an appraisal of their shares of Common Stock) in the Merger was fair, from a financial point of view, to those holders.

**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 thereto. The Lazard opinion was necessarily based on economic, monetary, market and other conditions as in effect on, and the information made available to Lazard as of, September 15, 2013, the date of the Lazard opinion. Lazard assumed no responsibility for updating or revising the Lazard opinion based on circumstances or events occurring after the date of the Lazard opinion. Lazard did not express any opinion as to the price at which shares of the Common Stock may trade at any time subsequent to the announcement of the Merger.

In connection with rendering the Lazard opinion described above and performing its related financial analyses, Lazard:

- reviewed the financial terms and conditions of a substantially final draft of the Merger Agreement;
- reviewed certain publicly available historical business and financial information relating to the Company;
- reviewed various financial forecasts and other data relating to the business of the Company provided to Lazard by the management of the Company, as well as modifications made thereto by the Special Committee and probability weightings assigned by the Special Committee;
- held discussions with members of the senior management of the Company with respect to the business and prospects (including the products and product candidates) of the Company;
- reviewed public information with respect to certain other companies in lines of business that Lazard believed to be generally relevant in evaluating the business of the Company;
- reviewed the financial terms of certain business combinations involving companies in lines of business that Lazard believed to be generally relevant in evaluating the business of the Company;
- reviewed historical stock prices and trading volumes of the Common Stock; and
- conducted such other financial studies, analyses and investigations as Lazard deemed appropriate.

Lazard assumed and relied upon the accuracy and completeness of the foregoing information, without independent verification of the information. Lazard did not conduct any independent valuation or appraisal of any of the assets or liabilities (contingent or otherwise) of the Company or concerning the solvency or fair value of the Company, and Lazard was not furnished with any such valuation or appraisal. At the direction of the Special Committee, Lazard utilized the F-1 Forecast provided by management of the Company, adjusted as directed by the Special Committee, for purposes of its analysis and applied the probability weightings assigned by the Special Committee related to the likelihood of technical, clinical and regulatory success and the possibilities for the timing of the commencement of generic competition in order to derive composite valuation ranges. Lazard assumed, with the consent of the Special Committee, that the F-1 Forecast and probability weightings had been reasonably prepared on bases reflecting the best currently available estimates and judgments as to the future financial performance of the Company and the likelihood of technical, clinical and regulatory success and the possibilities for the timing of the commencement of generic competition. In that connection, Lazard relied, with the consent of the Special Committee, on the assessments of management and the Special Committee, as reflected in the adjusted financial forecasts derived from the F-1 Forecast and the assigned probability weightings, as to the products and product candidates of the Company (including, without limitation, the validity of and risks associated with such products and product candidates, including the likelihood of technical, clinical and regulatory success and the validity and life of patents relating thereto). Lazard assumed no responsibility for and expressed no view as to any financial projections or any probability weightings or the assumptions on which such financial projections or weightings were based.

Lazard was not authorized to, and it did not, solicit indications of interest from third parties regarding a potential transaction with the Company. In addition, Lazard was not requested to consider, and the Lazard opinion did not address, the relative merits of the Merger as compared to any other transaction or business strategy in which the Company might engage or the merits of the underlying decision by the Company to engage in the Merger.

In rendering the Lazard opinion, Lazard assumed, with the consent of the Special Committee, that the Merger will be consummated on the terms described in the Merger Agreement, without any waiver or modification of any material terms or conditions. Lazard also assumed, with the consent of the Special Committee, that obtaining the necessary governmental, regulatory or third-party approvals and consents for the Merger will not have an adverse effect on the Company, Chiesi or the Merger. Lazard did not express any opinion as to any tax or other consequences that might result from the Merger, nor did the Lazard opinion address any legal, tax, regulatory or accounting matters, as to which Lazard understood that the Special Committee obtained such advice as it deemed necessary from qualified professionals. Lazard expressed no view or opinion as to any terms or other aspects (other than the merger consideration to the extent expressly specified in the Lazard opinion) of the Merger, including, without limitation, the form or structure of the Merger or any agreements or arrangements entered into in connection with, or contemplated by, the Merger. In addition, Lazard expressed no view or opinion as to the fairness of the amount or nature of, or any other aspects relating to, the compensation to any officers, directors or employees of any parties to the Merger, or class of such persons, relative to the merger consideration or otherwise.

In preparing the Lazard opinion, Lazard performed a variety of financial and comparative analyses that it deemed to be appropriate for this type of transaction, including those described below. The preparation of a fairness opinion is a complex process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to particular circumstances and, therefore, is not readily susceptible to partial analysis or summary description. Selecting portions of the analyses or of the summary set forth below, without considering the analyses as a whole, could create an incomplete or misleading view of the processes underlying the Lazard opinion. In arriving at the Lazard opinion, Lazard considered the results of all of the analyses as a whole and did not attribute any particular weight to any factor or analysis considered by it. Rather, Lazard made its determination as to fairness on the basis of its experience and professional judgment after considering the results of all of its analyses.

In its analyses, Lazard considered industry performance, regulatory, general business, economic, market and financial conditions and other matters, many of which are beyond the control of the Company. No company or transaction used in Lazard s analyses as a comparison is directly comparable to the Company or the Merger. Rather, the analyses involve complex considerations and judgments concerning financial and operating characteristics and other factors that could affect the acquisition, public trading or other values of the companies or transactions analyzed. The estimates contained in Lazard s analyses and the ranges of valuations resulting from any particular analysis are not necessarily indicative of actual values or predictive of future results or values, which may be significantly more or less favorable than those suggested by the analyses. Because these analyses are inherently subject to uncertainty, being based upon numerous factors or events beyond the control of the parties or their respective advisers, Lazard does not assume any responsibility if future results are materially different from those forecast. In addition, analyses relating to the value of businesses or securities do not purport to be appraisals or to reflect the prices at which businesses or securities actually may be sold. Accordingly, the estimates used in, and the results derived from, Lazard s analyses and estimates are inherently subject to substantial uncertainty.

The Lazard opinion was one of many factors taken into consideration by the Special Committee in connection with their consideration of the Merger. Consequently, the analyses described below should not be viewed as determinative of the opinion of the Special Committee with respect to the merger consideration or of whether the Special Committee would have been willing to determine that a different merger consideration was fair. The merger consideration to be paid to the holders of shares of Common Stock pursuant to the Merger was determined through arm s-length negotiations between the Special Committee and representatives of Chiesi and was approved by the Special Committee and the Board of the Company. Lazard did not recommend any specific merger consideration to the Special Committee or that any given merger consideration constituted the only appropriate consideration for the Merger.

The following is a summary of the material financial and comparative analyses that were performed by Lazard in connection with rendering the Lazard opinion and does not purport to be a complete description of the financial

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analyses performed by Lazard. Some of the summaries of the financial analyses include information presented in tabular format. The tables must be read together with the full text of each summary and are alone not a complete description of Lazard s financial analyses. Except as otherwise noted, the following quantitative information, to the extent that it is based on market data, is based on market data as it existed on or before September 13, 2013, and is not necessarily indicative of current market conditions. All results of the financial analyses presented in dollar value are rounded to the nearest $0.05.

***Sum-of-the-Parts Discounted Cash Flow Analysis***

Based upon the financial projections contained in the F-1 Forecast provided by management of the Company, as adjusted at the direction of the Special Committee, Lazard performed a discounted cash flow analysis to determine an illustrative net present value per share of Common Stock as of September 30, 2013 based on the aggregate of the illustrative net present values calculated by Lazard for each of the Company s products and product candidates and its estimated general and administrative expenses. For purposes of this analysis, Lazard applied a discount rate of 11%, reflecting an estimate of the Company s weighted average cost of capital, to (i) the estimated unlevered free cash flows to be generated by each of the Company s products and product candidates (applying probability of success weightings to the estimated unlevered free cash flows of the Company s product candidates as assigned by the Special Committee) and the estimated future general and administrative expenses to be incurred by the Company, in each case from September 30, 2013 through the end of the terminal year, which will be the later of 2022, the second year following the assumed market entry of competing generic products, or the assumed expiry of the Company s license agreement for the relevant product; and (ii) the terminal value of each of the Company s products and product candidates and its estimated general and administrative expenses as of the end of the terminal year. The discount rates used were estimated by Lazard based on its application of the Capital Asset Pricing Model, which takes into account certain Company-specific metrics, including the Company s target capital structure, the cost of long-term debt, an assumed tax rate and projected beta, as well as certain financial metrics for the financial markets generally. The terminal values were derived by applying a terminal growth rate of (10%) to the estimated unlevered free cash flow for the terminal year to be generated by each of the Company s products and product candidates (other than the Company s current generic products) and to the estimated general and administrative expenses for 2022, and a terminal growth rate of 0% to the estimated 2022 unlevered free cash flow to be generated by each of the Company s current generic products. The terminal growth rates used by Lazard were estimated by Lazard based on its professional judgment and experience, taking into account the F-1 Forecast, as adjusted by the Special Committee, and market expectations regarding long-term real growth of gross domestic product and inflation. Unlevered free cash flow was calculated as total operating income, less cash tax payments, plus depreciation and amortization, plus change in acquisition-related payments, less capital expenditures, less changes in working capital, and less contingent cash payments. For purposes of its analysis, at the direction of the Special Committee, Lazard calculated the net present value for CARDENE I.V. utilizing both unlevered free cash flow estimates assuming market entry of generic products in 2028 and unlevered free cash flow estimates assuming market entry of generic products in 2016, and applied a 50% probability weighting to each of the two scenarios to derive an illustrative net present value of CARDENE I.V. For purposes of its analysis, Lazard derived illustrative net present values for each of the Company s products and product candidates by adding an illustrative present value of the estimated unlevered free cash flows through the end of the terminal year and a terminal value derived for such product or product candidate, as applicable. Lazard added these illustrative present values for the Company s products and product candidates, an illustrative net present value of its net operating loss carryforwards and the Company s estimated net cash as of September 30, 2013 and subtracted an illustrative net present value of the Company s estimated general and administrative expense to derive an illustrative total equity value of the Company. For purposes of its analysis, Lazard divided each of the foregoing illustrative net present values amounts by the number of fully diluted shares of Common Stock, as calculated based on information in its most recent public filings and information provided by the Company with respect to dilutive securities outstanding, to show such amount on a per share of the Common Stock basis.

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The results of the foregoing are summarized as follows:

| Product/Product Candidate | Net Present Value ($ in millions) | Net Present Value per Share |
| --- | --- | --- |
| Cardene | $ 81 | $ 2.50 |
| Curosurf | 105 | 3.25 |
| Zyflo (Brand) | 33 | 1.00 |
| Zyflo (AG) | 60 | 1.90 |
| Bethkis | 34 | 1.05 |
| Cougar 067 | 12 | 0.35 |
| Retavase | 15 | 0.50 |
| Retaflo | 34 | 1.05 |
| Pertzye (full value) | 64 | 2.00 |
| **Other Amounts** | | |
| NOL Carryforwards | 3 | 0.10 |
| Net Cash | 8 | 0.25 |
| G&A Expenses | (133) | (4.15) |
| **Equity Value** | **$ 300** | **$ 9.30** |

The estimates used by Lazard for purposes of this analysis are summarized on page 63 under *Special Factors Projected Financial Information May 9, 2013 F-1 Forecast Update*.

Using the same methodology and assumptions and the adjusted financial projections, Lazard performed a sensitivity analysis by applying discount rates ranging from 10% to 12% to (i) the estimated unlevered free cash flows to be generated by each of the Company s products and product candidates and its estimated future general and administrative expenses, in each case from September 30, 2013 through the end of the terminal year, and (ii) the terminal value of each of the Company s products and product candidates and its estimated future general and administrative expenses as of the end of the terminal year derived by applying terminal growth rates that are 5% higher or lower than the terminal growth rates applied in the base case analysis as described above. This analysis resulted in illustrative net present values per share of the Common Stock ranging from $7.90 to $12.35.

***Going-Concern Discounted Cash Flow Analysis***

Based upon the financial projections contained in the F-1 Forecast provided by management of the Company, as adjusted at the direction of the Special Committee, Lazard performed a discounted cash flow analysis to determine an illustrative net present value per share of Common Stock as of September 30, 2013, treating the Company as a going-concern. For purpose of this analysis, Lazard applied discount rates ranging from 10% to 12%, reflecting an estimate of the Company s weighted average cost of capital, to (i) the estimated unlevered free cash flows of the Company from September 30, 2013 through the end of 2022, and (ii) the terminal value of the Company as of the end of 2022 derived by applying terminal growth rates ranging from 1.5% to 3.5% to the Company s estimated unlevered free cash flow for 2022. The range of discount rates used for purposes of this analysis was estimated by Lazard based on its application of the Capital Asset Pricing Model, which takes into account certain Company-specific metrics, including the Company s target capital structure, the cost of long-term debt, an assumed tax rate and projected beta, as well as certain financial metrics for the financial markets generally. The range of terminal growth rates used was estimated by Lazard based on its professional judgment and experience, taking into account the F-1 Forecast, as adjusted by the Special Committee, and market expectations regarding long-term real growth of gross domestic product and inflation. Unlevered free cash flow was calculated as total operating income, less cash tax payments, plus depreciation and amortization, plus change in acquisition-related payments, less capital expenditures, less changes in working capital and less contingent cash payments. For purposes of its analysis, at the direction of the Special Committee, Lazard assumed that the Company will dedicate 15% of its net revenue to research and development or business development efforts.

For purposes of its analysis, at the direction of the Special Committee, Lazard performed its calculations utilizing unlevered free cash flow estimates assuming market entry of generic products competing with CARDENE I.V.

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beginning in 2028 and unlevered free cash flow estimates assuming market entry of generic products competing with CARDENE I.V. beginning in 2016. Utilizing unlevered free cash flow estimates assuming market entry of generic products competing with CARDENE I.V. beginning in 2028, the foregoing calculations resulted in illustrative present values ranging from approximately $101 million to $115 million of the estimated unlevered free cash flows of the Company from September 30, 2013 through the end of 2022 and illustrative present values ranging from approximately $162 million to $316 million of the illustrative terminal values as of the end of 2022 derived for the Company. By adding an illustrative present value of the Company s net operating loss carryforwards of approximately $3 million to the sum of these illustrative present values of the estimated unlevered free cash flows and the terminal values and an adding to the results the Company s estimated net cash of approximately $8 million as of September 30, 2013, Lazard derived illustrative total equity values of the Company ranging from approximately $259 million to $426 million. By dividing these illustrative total equity values by the number of fully diluted shares of Common Stock, calculated based on the Company s most recent public filings and information provided by the Company with respect to dilutive securities outstanding, Lazard derived illustrative present values per share of Common Stock ranging from $8.10 to $13.10.

Utilizing unlevered free cash flow estimates assuming market entry of generic products competing with CARDENE I.V. beginning in 2016, the foregoing calculations resulted in illustrative present values ranging from approximately $76 million to $87 million of the estimated unlevered free cash flows for the Company from September 30, 2013 through the end of 2022 and illustrative present values ranging from approximately $141 million to $275 million of the terminal values as of the end of 2022 derived for the Company. By adding an illustrative present value of the Company s net operating loss carryforwards of approximately $3 million to the sum of these illustrative present values of the estimated unlevered free cash flows and the terminal values and an adding to the results the Company s estimated net cash of approximately $8 million as of September 30, 2013, Lazard derived illustrative total equity values of the Company ranging from approximately $213 million to $357 million. By dividing these illustrative total equity values by the number of fully diluted shares of Common Stock, as calculated based on the Company s most recent public filings and information provided by the Company with respect to dilutive securities outstanding, Lazard derived illustrative present values per share of Common Stock ranging from $6.70 to $11.05. At the direction of the Special Committee, Lazard applied a probability weighting of 50% to each of the foregoing values to derive illustrative present values per share of Common Stock ranging from $7.40 to $12.10.

The estimates used by Lazard for purposes of this analysis are summarized on page 63 under *Special Factors Projected Financial Information May 9, 2013 F-1 Forecast Update*.

***Selected Precedent Transactions Analysis***

Lazard reviewed and analyzed certain publicly available information relating to the following publicly announced transactions in the pharmaceutical industry and compared certain financial information and transaction multiples relating to the target companies in those transactions to the corresponding information for the Company.

These transactions all involved an all-cash acquisition of a 100% equity interest in a target company in the pharmaceutical industry with an enterprise value of at least $100 million and a business profile, as measured by its diversity of its products, sales and distribution channels through which its products are marketed and sold, historical and projected growth and margins, and qualitative assessments of the strength and longevity of the intellectual property protection underlying its portfolio, that, for the purpose of analysis, may be considered similar to the business profile of the Company. Although none of the selected transactions or the companies party to the transactions is directly comparable to the proposed Merger or to the Company, the selected transactions were chosen because they involved transactions that, for the purpose of analysis, may be considered similar to the Merger and/or involve publicly traded companies with operations that, for the purpose of analysis, may be considered similar to certain operations of the Company.

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With respect to the proposed Merger and the merger consideration of $9.50 per share and with and each selected transaction and to the extent information was publicly available, Lazard calculated, among other things:

- the enterprise value of the Company and each target company, as applicable, as a multiple of such company s net revenue and earnings before interest, taxes, depreciation and amortization ( EBITDA ), respectively, for the 12-month period prior to the date on which the relevant transaction was announced ( LTM ) as reflected in the publicly disclosed financial results of the Company or each target company, as applicable, annualized where appropriate; and

- the enterprise value of the Company and each target company, as applicable, as a multiple of such company s forward net revenue and EBITDA, respectively, for the year in which the relevant transaction was announced or the year thereafter as published by Wall Street analysts.

The enterprise value of each target company based on the consideration paid in the applicable transaction as reflected in publicly available information and the resulting multiples calculated for each target company are as follows:

| Date Announced | Acquiror | Target | Enterprise Value (million) | EV/LTM Net Revenue | EV/LTM EBITDA | EV/Forward Net Revenue | EV/Forward EBITDA |
|---|---|---|---|---|---|---|---|
| 09/2009 | Dainippon Sumitomo Pharma Co., Ltd. | Sepracor Inc. | $ 2,440 | 1.8x | 7.8x | 1.7x | 5.9x |
| 09/ 2008 | Shionogi & Co., Ltd. | Sciele Pharma, Inc. | 1,263 | 3.2x | 12.4x | 2.4x | 7.4x |
| 11/ 2007 | TPG Capital | Axcan Pharma Inc. | 1,010 | 2.9x | 8.1x | 2.8x | 6.3x |
| 11/ 2011 | Medicis Pharmaceutical Corp. | Graceway Pharmaceuticals, LLC | 455 | 3.0x | 10.9x | 3.6x | N/A |
| 07/ 2009 | Hisamitsu Pharmaceutical Co., Inc. | Noven Pharmaceuticals, Inc. | 362 | 3.1x | NM | 4.0x | 10.7x |
| 08/ 2010 | Meda AB | Alaven Pharmaceutical LLC | 350 | 3.2x | 9.0x | N/A | N/A |
| 10/ 2007 | Nycomed U.S. Inc. | Bradley Pharmaceuticals, Inc. | 333 | 2.4x | 11.1x | 2.2x | 8.5x |
| 05/ 2012 | Cornerstone Therapeutics Inc. | EKR Therapeutics, Inc. | 150 | 2.6x | NM | N/A | N/A |
| | | Proposed Transaction | 313 | 2.1x | 6.0x | 2.1x | 8.7x |

Based on the results of the foregoing analysis and Lazard s professional judgment, Lazard:

- applied the higher and lower ends of the range of enterprise value/forward net revenue multiples for the selected transactions to estimated net revenue of the Company for 2014 as reflected in the financial projections contained in the F-1 Forecast provided by management of the Company, as adjusted at the direction of the Special Committee, and derived illustrative implied values per share of Common Stock ranging from $8.05 to $18.35;

and

applied the higher and lower ends of the range of enterprise value/forward EBITDA multiples for the selected transactions to estimated EBITDA of the Company for 2014 as reflected in the financial projections contained in the F-1 Forecast provided by management of the Company, as adjusted at the direction of the Special Committee, and derived illustrative implied values per share of the Common Stock ranging from $6.35 to $11.65.

***Selected Companies Analysis***

Lazard reviewed and analyzed certain publicly available market trading data, financial information and valuation metrics of the following selected publicly traded companies in the pharmaceutical industry with an enterprise value of at least $100 million, and a business profile, as measured by the diversity of products, sales and distribution channels through which its products were marketed and sold, historical and projected growth and margins, and qualitative assessments of the strength and longevity of the intellectual property protection underlying its portfolio, that, for the purpose of analysis, may be considered similar to the business profile of the Company, and compared such trading data, financial information and valuation metrics to corresponding information for the Company:

Cubist Pharmaceuticals Inc.

Jazz Pharmaceuticals plc

Questcor Pharmaceuticals Inc.

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The Medicines Company

Auxilium Pharmaceuticals, Inc.

Pernix Therapeutics Holdings Inc.

The selected companies were chosen based on Lazard s knowledge of the pharmaceutical industry. Although none of the selected companies is directly comparable to the Company, the selected companies are publicly traded companies with operations and/or other criteria, such as lines of business, markets, business risks, growth prospects, maturity of business and size and scale of business, that for purposes of its analysis Lazard considered similar to the Company.

Based on the $5.50 closing share price of the Company as of February 19, 2013, the last trading date before the public announcement of Chiesi s offer to acquire the remaining interest in the Company, the closing share prices of the selected companies as of September 13, 2013, historical financial information of the Company and selected companies contained in their filings with the SEC, management financial projections for the Company as adjusted by the Special Committee, and consensus estimates for the selected companies published by Inter-Brokerage Estimate System, Lazard calculated, among other things, with respect to the Company and each selected company:

enterprise value as a multiple of estimated net revenue for 2013 and 2014; and

enterprise value as a multiple of estimated EBITDA for 2013 and 2014.

The enterprise value of each selected company was calculated on a pro forma basis, taking into account the impact of announced acquisitions by such companies as applicable.

The data for each company compiled by Lazard is based upon publicly available information and the multiples calculated for each company are as follows:

| Company | Enterprise Value (million) | 12A-15E Net Revenue CAGR | 2012A Gross Margin | 2012A EBITDA Margin | R&D as % of Net Revenue | EV/2013E Net Revenue | EV/2014E Net Revenue | EV/ 2013E EBITDA | EV/ 2014E EBITDA |
|---|---|---|---|---|---|---|---|---|---|
| Cubist Pharmaceuticals Inc. | $ 5,714 | 14.0% | 75.2% | 30.2% | 30.0% | 5.5x | 4.8x | NM | 22.8x |
| Jazz Pharmaceuticals plc | 5,561 | 21.5% | 86.5% | 48.3% | 3.1% | 6.4x | 5.3x | 11.8x | 9.3x |
| Questcor Pharmaceuticals Inc. | 4,041 | 26.5% | 94.4% | 58.5% | 6.7% | 5.5x | 4.5x | 9.6x | 7.6x |
| The Medicines Company | 2,163 | 16.5% | 68.8% | 17.4% | 22.2% | 3.1x | 2.8x | NM | 13.8x |
| Auxilium Pharmaceuticals, Inc. | 1,382 | 11.8% | 75.5% | 11.6% | 11.4% | 3.3x | 2.8x | 18.6x | 11.4x |
| Pernix Therapeutics Holdings Inc. | 118 | 5.0% | 63.8% | NM | 4.7% | 1.3x | 1.0x | NM | 8.4x |
| Cornerstone (unaffected) | 188 | 13.6% | 59.7% | 23.9% | 3.7% | 1.2x | 1.2x | 4.0x | 5.2x |

Based on the results of the foregoing analysis and Lazard s professional judgment, Lazard:

applied the lower end and the mean of the range of enterprise value/2014E net revenue multiples for the selected companies to estimated net revenue of the Company for 2014 as reflected in the financial projections contained in the F-1 Forecast provided by management of the Company, as adjusted at the direction of the Special Committee, and derived illustrative implied values per share of Common Stock ranging from $4.05 to $16.10; and

applied the lower end and the mean of the range of enterprise value/2014E EBITDA multiples for the selected companies to estimated EBITDA of the Company for 2014 as reflected in the financial projections contained in the F-1 Forecast provided by management of the Company, as adjusted at the direction of the Special Committee, and derived illustrative implied values per share of the Common Stock ranging from $8.30 to $13.30.

***Additional Analyses***

The following analyses and information were presented to the Special Committee for informational purposes only and were not material to the rendering of the Lazard opinion. These analyses were intended to be merely informational at the time they were performed and were presented by Lazard as such to the Special Committee. Neither Lazard nor the Special Committee deemed any of these analyses to be material to the fairness determination at any point in time.

***Leveraged Buyout Return Analysis.*** Lazard performed a leveraged buyout return analysis based on the financial projections contained in the F-1 Forecast provided by management of the Company, as adjusted at the direction of the Special Committee, to determine the range of prices per share of the Common Stock a financial buyer would be willing pay to acquire the Company on a stand-alone basis with an illustrative capital structure that Lazard deemed to be achievable in the current market. For purpose of this analysis, Lazard assumed an investment period from September 30, 2013 to December 31, 2017, target internal rates of return ranging from 22.5% to 27.5%, total leverage at closing of 5.0x EBITDA for the 12-month period ending September 30, 2014, reflecting the first 12 months following assuming market entry of generic products in competition with ZYFLO, and an exit multiple of 9.0x. For purposes of its analysis, at the direction of the Special Committee, Lazard utilized estimates assuming market entry of generic products in competition with CARDENE I.V. beginning in 2028 and estimates assuming market entry of generic products in competition with CARDENE I.V. beginning in 2016 and applied a 50% probability weighting to each of the two scenarios. This analysis resulted in illustrative per share purchase prices for the Common Stock ranging from $7.90 to $8.50.

***Premia Paid Analysis***. Lazard performed a premia paid analysis based on the premia to be paid in the proposed Merger and the premia paid in all previously announced transactions in various industries involving the acquisition of the remaining equity interest in the target company by the majority stockholder for cash. For purposes of this analysis, Lazard calculated the premia represented by the per-share acquisition price in each of the transactions to the closing price of the applicable target company s shares, as of one day, one week and one month prior to the announcement of the applicable transaction. With respect to the proposed Merger, Lazard calculated the premia represented by the per-share merger consideration to the closing price of the shares of the Common Stock as of one day, one week and one month prior to February 19, 2013, the last trading date before the public announcement of Chiesi s offer to acquire the remaining interest in the Company. The results of these calculations are set forth below:

| | | All Minority Buy-In Transactions | | | |
|---|---|---|---|---|---|
| **Premium to:** | **Proposed Merger** | **High** | **Low** | **Mean** | **Median** |
| 1- Day Prior | 73% | 46% | 4% | 26% | 26% |
| 1- Week Prior | 76% | 46% | 6% | 28% | 29% |
| 1- Month Prior | 70% | 103% | 5% | 31% | 28% |

Based on the foregoing results and Lazard s professional judgment, Lazard applied the higher and lower ends of the range of one-day premium for the precedent minority buy-in transactions to the unaffected price of the shares of the Common Stock on February 19, 2013 and derived illustrative prices for shares of the Common Stock ranging from $5.70 to $8.05.

***Historical Trading Prices***. Lazard reviewed the historical price performance of the Common Stock for the 52-week period ending September 13, 2013. During this period, the closing prices of the Common Stock ranged from $4.75 to $10.25.

***Analyst Price Target***. Lazard reviewed the target trading price of the Common Stock published by Ladenburg Thalmann. The 12-month target trading price of the Common Stock is $14.00. Lazard applied a discount rate of 13%, reflecting an estimate of the Company s cost of equity under its current capital structure, to this 12-month target trading price and derived an illustrative present value of the target trading price of $12.40.

***Other Factors***. Lazard advised the Special Committee that it had not performed analyses based on the Company s book value because it does not consider that metric relevant to companies in the pharmaceutical industry, and the Company s book value per share is considerably lower than the price proposed to be paid by Chiesi. Lazard advised that the sum-of-the-parts analysis it presented is essentially the same as a liquidation value analysis.

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*Miscellaneous*

Pursuant to the terms of Lazard s engagement letter, the Company has agreed to pay Lazard a fee of approximately $2,900,000, $1,000,000 of which became payable upon Lazard s rendering of the Lazard opinion and a substantial portion of which is contingent upon the closing of the Merger. Lazard disclosed to the Special Committee, prior to the time it was retained by the Special Committee to act as its financial adviser, that Lazard has current and recent past financial advisory relationships with or connections to Chiesi, including that (i) an employee of 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. In the ordinary course, Lazard, LFCM Holdings LLC (an entity indirectly owned in large part by current and former managing directors of Lazard) and their respective affiliates and employees may trade securities of the Company and certain affiliates of Chiesi for their own accounts and for the accounts of their customers, may at any time hold a long or short position in such securities, and may also trade and hold securities on behalf of the Company, Chiesi and certain of their respective affiliates.

Lazard is an internationally recognized investment banking firm providing a full range of financial advisory and securities services. Lazard was selected to act as financial adviser to the Special Committee because of its qualifications, expertise and reputation in investment banking and mergers and acquisitions, as well as its familiarity with the business of the Company.

***Other Written Presentations by Lazard***

In addition to the presentation made to the Special Committee described above, Lazard also made written and oral presentations to the Special Committee on April 10, April 26, May 17, May 28 and August 9 of 2013. Copies of these other written presentations by Lazard to the Special Committee have been attached as exhibits to the Transaction Statement on Schedule 13E-3 filed with the SEC in connection with the proposed transaction. These written presentations will be available for any interested stockholder of the Company (or any representative of a stockholder who has been so designated in writing) to inspect and copy at the Company s principal executive offices during regular business hours.

None of these other written and oral presentations by Lazard, alone or together, constitutes an opinion of Lazard with respect to the consideration to be paid in the proposed transaction. Information contained in these other written and oral presentations is substantially similar to the information provided in Lazard s written presentation to the Special Committee on September 15, 2013, as described above.

The April 10 materials contained a review of Chiesi s initial non-binding offer of $6.40 to $6.70 per share of Common Stock, an overview of the Company s historical trading performance, preliminary financial analyses based on the initial F-1 Forecast and preliminary process considerations. The financial analyses contained in the April 10 materials resulted in illustrative implied equity value per share of the Common Stock ranging (i) from $8.00 to $11.75 based on the sum-of-the-parts discounted cash flow analysis, (ii) from $7.45 to $11.70 based on the going-concern discounted cash flow analysis, (iii) from $9.30 to $11.60 based on the selected precedent transaction analysis using enterprise value / net revenue multiples; (iv) from $7.75 to $10.40 based on the selected precedent transaction analysis using enterprise value / EBITDA multiples; (v) from $5.25 to $11.00 based on the selected comparable companies analysis using enterprise value / net revenue multiples; and (vi) from $3.55 to $10.70 based on the selected comparable companies analysis using enterprise value / EBITDA multiples.

The April 26 materials contained an updated review of the Company s historical trading performance, updated financial analyses based on the initial F-1 Forecast and a discussion of possible next steps in communication with

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Chiesi and its financial advisor. The financial analyses contained in the April 26 materials resulted in illustrative implied equity value per share of the Common Stock ranging (i) from $7.95 to $11.70 based on the sum-of-the-parts discounted cash flow analysis, (ii) from $7.40 to $11.60 based on the going-concern discounted cash flow analysis, (iii) from $9.30 to $11.60 based on the selected precedent transaction analysis using enterprise value/net revenue multiples; (iv) from $7.75 to $10.40 based on the selected precedent transaction analysis using enterprise value / EBITDA multiples; (v) from $3.50 to $10.85 based on the selected comparable companies analysis using enterprise value / net revenue multiples; and (vi) from $3.45 to $10.60 based on the selected comparable companies analysis using enterprise value / EBITDA multiples.

The May 17 materials contained a review of Chiesi s revised offer of $8.25 per share of Common Stock made on May 2, 2013, a summary of recent events (including the acquisition of PERTZYE and the public announcement of the Company s financial results for the first quarter of 2013) and communications between the respective financial advisors to the Company and Chiesi, and illustrative financial analyses based on the updated F-1 Forecast provided by the Company s management on May 9, 2013. The financial analyses contained in the May 17 materials resulted in illustrative implied equity value per share of the Common Stock ranging (i) from $9.15 to $13.90 based on the sum-of-the-parts discounted cash flow analysis, (ii) from $8.50 to $13.80 based on the going-concern discounted cash flow analysis, (iii) from $11.55 to $14.55 based on the selected precedent transaction analysis using enterprise value / net revenue multiples; (iv) from $10.50 to $14.20 based on the selected precedent transaction analysis using enterprise value / EBITDA multiples; (v) from $5.35 to $13.25 based on the selected comparable companies analysis using enterprise value / net revenue multiples; and (vi) from $5.85 to $12.20 based on the selected comparable companies analysis using enterprise value / EBITDA multiples.

The May 28 materials contained a summary of the adjustments inputted by Lazard to the updated F-1 Forecast at the direction of the Special Committee and updated illustrative financial analyses based on the F-1 Forecast, as adjusted by the Special Committee, which were the same as those utilized by Lazard in its presentation to the Special Committee on September 15, 2013, the date on which Lazard delivered its fairness opinion. The financial analyses contained in the May 28 materials resulted in illustrative implied equity value per share of the Common Stock ranging (i) from $8.40 to $12.80 based on the sum-of-the-parts discounted cash flow analysis, (ii) from $7.80 to $12.70 based on the going-concern discounted cash flow analysis, (iii) from $11.55 to $14.55 based on the selected precedent transaction analysis using enterprise value / net revenue multiples; (iv) from $10.50 to $14.20 based on the selected precedent transaction analysis using enterprise value/EBITDA multiples; (v) from $5.55 to $13.00 based on the selected comparable companies analysis using enterprise value / net revenue multiples; and (vi) from $4.55 to $11.20 based on the selected comparable companies analysis using enterprise value / EBITDA multiples.

The August 9 materials contained a review of Chiesi s revised offer of $9.00 to $9.25 per share of Common Stock made on August 5, 2013, a review of the Company s publicly announced financial results for the second quarter of 2013, and updated illustrative financial analyses based on the F-1 Forecast, as adjusted by the Special Committee, which were the same as those utilized by Lazard in its presentation to the Special Committee on September 15, 2013, the date on which Lazard delivered its fairness opinion. The financial analyses contained in the August 9 materials resulted in illustrative implied equity value per share of the Common Stock ranging (i) from $7.90 to $12.35 based on the sum-of-the-parts discounted cash flow analysis, (ii) from $7.40 to $12.10 based on the going-concern discounted cash flow analysis, (iii) from $11.65 to $14.70 based on the selected precedent transaction analysis using enterprise value/net revenue multiples; (iv) from $14.00 to $18.85 based on the selected precedent transaction analysis using enterprise value / EBITDA multiples; (v) from $5.85 to $15.60 based on the selected comparable companies analysis using enterprise value / net revenue multiples; and (vi) from $7.90 to $12.00 based on the selected comparable companies analysis using enterprise value / EBITDA multiples.

Each of the financial analyses contained in these other written and oral presentations were performed using the same methodologies as those used in Lazard s financial analyses presented to the Special Committee on September 15, 2013. However, the financial analyses in these other written and oral presentations were based on market, economic and other conditions as they existed as of the dates of the respective presentations as well as other information that was available at those times. Accordingly, the results of the financial analyses differed due to changes in those conditions. Among other things, multiples attributable to selected companies changed as those companies stock prices changed, and results of the illustrative discounted cash flow analyses changed as the Company s financial results changed as well as projections made by management of the Company were revised or adjusted. Finally, Lazard continued to refine various aspects of its financial analyses with respect to the Company over time.

**Position of Chiesi and Chiesi US as to Fairness of the Merger**

Under the SEC rules governing going private transactions, each of Chiesi and Chiesi US is an affiliate of the Company and, therefore, is required to express its beliefs as to the fairness of the Merger to the unaffiliated security holders, as defined in Rule 13e-3 under the Exchange Act, of the Company (the Unaffiliated Stockholders ). Each of Chiesi and Chiesi US is making the statements included in this section solely for the purpose of complying with the requirements of Rule 13e-3 and related rules under the Exchange Act. The views of Chiesi and Chiesi US should not be construed as a recommendation to any Company stockholder as to how that stockholder should vote on the proposal to adopt the Merger Agreement.

Chiesi attempted to negotiate with the Special Committee the terms of a transaction that would be most favorable to Chiesi, and not necessarily to the Unaffiliated Stockholders, and, even though as stated further below, Chiesi believes that the Merger is substantively and procedurally fair to the Unaffiliated Stockholders, Chiesi did not negotiate the Merger Agreement with a goal of obtaining terms that were fair to the Unaffiliated Stockholders. The Special Committee consists of five independent and disinterested directors who are not affiliated with Chiesi and Chiesi US, are not officers or employees of the Company or any of its affiliates and have no financial interest in the Merger different from, or in addition to the interests of the Unaffiliated Stockholders (other than the interests described under *Special Factors Interests of the Company s Directors and Executive Officers in the Merger* , *Special Factors Potential Change of Control Payments to Executive Officers* and *Special Factors Payments to Executive Officers and Directors in Respect of Unvested Stock Options and Restricted Stock Awards* ).

Neither Chiesi nor Chiesi US participated in the deliberations of the Special Committee or the Board, or received advice from the Special Committee s legal or financial advisers, regarding the substantive or procedural fairness of the Merger to the Unaffiliated Stockholders. Although Chiesi engaged Jefferies as its financial adviser, neither Chiesi nor Chiesi US has performed, or engaged a financial adviser to perform, any valuation or other analysis for the purpose of assessing the fairness of the Merger to the Unaffiliated Stockholders.

Based on the knowledge and analysis of Chiesi and Chiesi US of available information regarding the Company, as well as discussions with the Company s senior management regarding the Company and its business, negotiations on Chiesi s behalf between Chiesi s and the Company s respective advisers and the other factors considered by, and the analysis and resulting conclusions of, the Board and the Special Committee discussed under *Special Factors Reasons for the Merger; Recommendation of the Board of Directors and the Special Committee* (which resulting conclusion each of Chiesi and Chiesi US adopts), each of Chiesi and Chiesi US believes that the Merger is substantively and procedurally fair to the Unaffiliated Stockholders. In particular, each of Chiesi and Chiesi US believes that the Merger is substantively and procedurally fair to the Unaffiliated Stockholders based on its consideration of the following factors, among others:

***Substantive Factors***

The price of $9.50 per share to be paid upon completion of the Merger represents a premium of approximately 78% over the reported closing price for the Common Stock on February 15, 2013, the last trading day before Chiesi made the Initial Proposal, and a premium of approximately 80% over the average of the closing prices reported for the 90 days ended February 15, 2013;

Chiesi considered financial forecasts prepared by Chiesi s management and by the Company s management containing projections of the Company s future financial performance, as well as the Company s financial results, the historical market prices of the Common Stock and other information relating to the Company and the industry in which the Company operates;

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The Merger will provide consideration to the Company s stockholders (other than Chiesi and Chiesi US) entirely in cash, eliminating any uncertainty in valuing the merger consideration and allowing the Unaffiliated Stockholders to immediately realize a certain value for all of their shares of Common Stock, as a result of which the Unaffiliated Stockholders will have the ability to pursue other investment alternatives, and will no longer be exposed to the various risks and uncertainties related to continued ownership of the Common Stock (although Chiesi and Chiesi US also noted that if the Merger is completed, the Unaffiliated Stockholders will no longer have the right to participate in the Company s potential future profits or in any potential future appreciation in the value of the Company s business);

Before the Special Committee approved the Merger, Lazard, the financial adviser to the Special Committee, delivered its opinion to the Special Committee, which was subsequently confirmed in writing, that as of September 15, 2013 and based upon and subject to the assumptions, procedures, factors, limitations and qualifications set forth in Lazard s written opinion, the consideration to be paid to the holders of Common Stock in the Merger (other than Chiesi, Chiesi US and those holders who are entitled to and have properly exercised appraisal rights under Delaware law) was fair, from a financial point of view, to those holders, although the opinion of Lazard was provided for the information and assistance of the Special Committee and Chiesi and Chiesi US are not entitled to, and did not rely on, such opinion;

Chiesi s knowledge regarding the specialty pharmaceutical market, as well as specific risks relating to the Company, including, but not limited to (in no particular order):

the need for increased sales and marketing expenses in order to maintain the Company s revenues in light of increasing competition in the specialty pharmaceutical market;

the Company s uncertain intellectual property protections for several of its products, including the fact that the last applicable patent for ZYFLO CR expired in September 2013, which could negatively impact the Company s future revenues, due to increased generic product competition;

the Company s lack of an internal research and development department, requiring the Company to depend upon in-licensing or product acquisitions to bolster its product portfolio;

potential generic competition in the specialty pharmaceutical market, which competition may be expected to become more intense as the Company s revenues and product portfolio increase;

the likelihood of delays in the commercialization of the Company s RETAVASE and RETAFLO product candidates, which will likely cause the Company to incur additional product development expenses, while delaying the potential receipt of revenues from those product candidates;

the complex biological nature of RETAVASE and RETAFLO and the resulting technical complexity of formulating those products, which may result in the need for increased research and development expenses;

- reduced revenue forecast for the Company s CRTX 067 product as a result of competing products and regulatory and production issues, which have delayed commercial launch of the product;

- reduced revenue forecast for the Company s CRTX 067 product candidate as a result of the highly complex and unpredictable manufacturing process of the product which may prejudice the fulfillment of the market needs;

- the Company s receipt of two notice letters from separate generic applicants, each containing a Paragraph IV certification seeking approval to market a generic version of CARDENE I.V.; and

- the likelihood that the Company will incur substantial legal expenses in connection with its pending and potential future litigation involving the Company s intellectual property and other rights.

In their consideration of the fairness of the proposed Merger, Chiesi and Chiesi US did not find it practicable to, and did not, appraise the assets of the Company to determine the liquidation value per share because, among other reasons, (i) their belief that a liquidation generally results in proceeds substantially less than the sale of a going concern, (ii) the impracticability of determining a liquidation value given the significant execution risk involved in a liquidation, (iii) they considered the Company a viable going concern and (iv) the Company will continue to operate its business following the Merger.

Chiesi and Chiesi US did not consider net book value, which is an accounting concept, for purposes of determining the fairness of the per share merger consideration to the Unaffiliated Stockholders because, in their view, net book value is not indicative of the Company s market value but rather is an indicator of historical costs. Chiesi and Chiesi US note, however, that the merger consideration of $9.50 per share is higher than the net book value of the Company per share of $6.95 as of September 30, 2013.

Chiesi and Chiesi US did not seek to establish a pre-Merger going concern value for the Common Stock to determine the fairness of the merger consideration to the Unaffiliated Stockholders because following the Merger the Company will have a significantly different capital structure. However, to the extent the pre-Merger going concern value was reflected in the share price of the Common Stock on February 15, 2013, the last trading day before Chiesi made the Initial Proposal, the per share merger consideration of $9.50 represented a premium to the going concern value of the Company.

During the previous two years, Chiesi purchased shares of the Common Stock in the following transactions:

During the period from November 29, 2011 to March 15, 2012, Chiesi purchased 21,200 shares in open market transactions at prices ranging from $5.0649 to $6.08 per share and an average price of $5.51 per share;

On April 3, 2012, Chiesi purchased 1,443,913 shares in a privately-negotiated sale at a purchase price of $6.25 per share; and

On June 21, 2012, Chiesi entered into a senior secured term loan facility with the Company which included, among other things, a $30 million five-year term loan convertible at any time by Chiesi at $7.098 per share, up to an aggregate of 4,226,542 shares of Common Stock. The closing price for the Common Stock on June 21, 2012 was $5.88 per share.

Chiesi and Chiesi US did not consider the prices paid in these historical purchases for purposes of determining the fairness of the per share merger consideration to the Unaffiliated Stockholders because, in their view, these historical prices do not reflect the current value of the Company, but rather, the prices above reflect either (i) the prevailing market value of the Company at the time of the open market transactions or (ii) one factor in a negotiated transaction between parties, which factor was considered among several others at the time of the transactions.

***Procedural Factors***

The Merger Agreement explicitly requires, as a non-waivable condition to the parties obligations to effect the Merger, that the Merger Agreement be adopted by stockholders holding at least a majority of the outstanding shares of the Common Stock not owned, directly or indirectly, by Chiesi and Chiesi US, or any of their affiliates, any other officers and directors of the Company or any other person having any equity interest in, or any right to acquire any equity interest in, Chiesi US or any person of which Chiesi US is a direct or indirect subsidiary;

There is no financing condition in the Merger Agreement;

Chiesi and Chiesi US believe that there was no need to retain any additional unaffiliated representatives to act on behalf of the Unaffiliated Stockholders, because the members of the Special Committee were and are independent of Chiesi and Chiesi US and the Special Committee retained its own independent legal counsel and financial adviser, both of which assisted the Special Committee in effectively representing the interests of the Unaffiliated Stockholders;

The Merger Agreement permits a change in the recommendation of the Special Committee and the Board if, after consultation with its legal advisers, the Special Committee determines in good faith that the failure to take such action would be inconsistent with its fiduciary duties to the Company s stockholders;

No break up fee or expense reimbursement is payable by the Company if the Merger Agreement is terminated for any reason, including if the requisite votes of the Company s stockholders are not obtained;

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The Merger Agreement and the transactions contemplated thereby, including the Merger, were unanimously approved by the Board (without the participation of Dr. Failla or Mr. Vecchia, who recused themselves from all proceedings of the Board because of their affiliation with Chiesi). In addition, the Special Committee, which was represented and advised by its own legal and financial advisers, has unanimously determined that the Merger Agreement and the transactions contemplated by the Merger Agreement, including the Merger, are fair to, and in the best interests of, the Unaffiliated Stockholders, and determined it to be advisable for the Company to enter into the Merger Agreement; and

The foregoing factors were weighed against the fact that Chiesi and Chiesi US currently beneficially own more than 50% of the voting stock of the Company, and Chiesi and Chiesi US have indicated their unwillingness to sell their shares to any third party. As a result, neither a go shop provision, which would have allowed the Company to initiate, solicit or encourage competing proposals from third parties, nor a no shop provision, which would have prohibited the Company from, among other things, soliciting competing proposals from third parties, were included in the Merger Agreement.

The foregoing discussion of the factors considered by Chiesi and Chiesi US in connection with the fairness of the Merger is not intended to be exhaustive, but is believed to include all material factors considered by each of them. Chiesi and Chiesi US did not find it practicable to, and therefore did not, quantify or otherwise attach relative weights to the foregoing factors in reaching their position as to the fairness of the Merger. Rather, Chiesi and Chiesi US made their fairness determination after considering all of the foregoing factors as a whole. Chiesi and Chiesi US believe these factors provide a reasonable basis upon which to form their belief that the Merger is fair to the Unaffiliated Stockholders. This belief should not, however, be construed as a recommendation to any stockholder of the Company to vote in favor of the proposal to adopt the Merger Agreement. Chiesi and Chiesi US make no recommendation as to how the Company s stockholders should vote their shares of Common Stock on the proposal to adopt the Merger Agreement.

***Company Financial Projections Prepared by Chiesi***

On April 20, 2013, Lazard provided Jefferies the F-1 Forecast described in this proxy statement under *Special Factors Projected Financial Information* , and Jefferies subsequently shared with Chiesi the financial projections set forth below in summary form, which we refer to as the Company April Forecast :

| | Year Ending December 31, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** |
| | (in US$ millions) | | | | | | | | | |
| Net revenues | $ 161.2 | $ 153.3 | $ 168.0 | $ 183.2 | $ 192.0 | $ 218.2 | $ 263.4 | $ 272.4 | $ 279.2 | $ 284.5 |
| Gross profit (exclusive of amortization of product rights) | $ 115.2 | $ 101.2 | $ 109.8 | $ 121.5 | $ 127.4 | $ 147.3 | $ 181.7 | $ 189.0 | $ 194.5 | $ 198.3 |
| EBIT(1) | $ 22.9 | $ 13.4 | $ 20.2 | $ 37.2 | $ 41.0 | $ 60.4 | $ 94.3 | $ 99.8 | $ 104.6 | $ 108.2 |
| EBITDA(2) | $ 40.9 | $ 32.0 | $ 40.6 | $ 57.1 | $ 61.7 | $ 81.0 | $ 115.0 | $ 121.9 | $ 126.8 | $ 130.3 |

(1) EBIT means earnings before deductions for interest and taxes. It excludes stock-based compensation.
(2)

EBITDA means earnings before deductions for interest, taxes, depreciation and amortization. It excludes stock-based compensation.

Chiesi reviewed the Company April Forecast, and, due to Chiesi s belief that the projections prepared by the Company s management were too aggressive based upon Chiesi s knowledge of the industry and of the Company in particular, in May 2013, Chiesi discussed with Jefferies certain downward revisions to the Company April Forecast. These revised projections, as summarized below, are referred to as the Chiesi Adjusted April Forecast .

Set forth below in summary form are the financial projections in the Chiesi Adjusted April Forecast:

| | Year Ending December 31, | | | | |
|---|---|---|---|---|---|
| | **2013** | **2014** | **2015** | **2016** | **2017** |
| | (in US$ millions) | | | | |
| Net revenues | $ 151.8 | $ 151.8 | $ 165.9 | $ 176.5 | $ 177.5 |
| Gross profit (exclusive of amortization of product rights) | $ 108.5 | $ 100.2 | $ 108.4 | $ 117.1 | $ 117.8 |
| EBIT(1) | $ 16.2 | $ 12.5 | $ 18.8 | $ 30.1 | $ 28.4 |
| EBITDA(2) | $ 34.3 | $ 31.0 | $ 39.3 | $ 50.0 | $ 49.0 |
| Unlevered Free Cash Flow | $ 1.0(3) | $ 15.0 | $ 17.4 | $ 23.1 | $ 31.2 |

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(1) EBIT means earnings before deductions for interest and taxes. It excludes stock-based compensation.
(2) EBITDA means earnings before deductions for interest, taxes, depreciation and amortization. It excludes stock-based compensation.
(3) For the six-month period ending December 31, 2013.

The Company April Forecast and the Chiesi Adjusted April Forecast were used by Jefferies in connection with its May 2, 2013 preliminary financial analyses (see *Special Factors Consultation with Jefferies, Financial Adviser to Chiesi* ).

Between May 2013 and July 2013, several events occurred that caused Chiesi to further revise its interpretation of the Company April Forecast, including, among others and in no particular order: (i) the Company s first quarter financial results falling short of the first quarter performance projected in the Company April Forecast, (ii) the Company s receipt of Paragraph IV notices from two separate companies regarding the CARDENE I.V. product, and (iii) likely delays in commercialization of the Company s RETAVASE and RETAFLO product candidates. A more fulsome discussion regarding these factors can be found under the heading *Substantive Factors* above.

Based upon these factors, Chiesi discussed with Jefferies further revisions to the Company April Forecast to reflect four alternative scenarios, which we collectively refer to as the Chiesi Adjusted July Forecasts. The base case financial projection reflected the most aggressive revenue projections for the Company as it did not account for future generic product competition for CARDENE I.V. The Case #1 financial projection reflected the most conservative revenue projections for the Company as it assumed the launch of competing CARDENE I.V. generic products in 12 months. The Case #2 financial projection reflected a somewhat more aggressive revenue forecast based upon the assumption of no generic CARDENE I.V. competition for 24 months. The Case #3 financial projection reflected an even more aggressive revenue projection as it assumed no generic CARDENE I.V. competition for 36 months. The Case #2 financial projection, which Chiesi believed to be the most useful due to its position in the middle range of Chiesi s assumptions, is set forth below:

| | Year Ending December 31, (in US$ millions) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** |
| Net revenues | $ 151.4 | $ 136.5 | $ 153.5 | $ 157.5 | $ 127.1 | $ 130.3 | $ 134.3 | $ 141.7 | $ 156.0 | $ 162.5 |
| Gross profit (exclusive of amortization of product rights) | $ 108.2 | $ 90.1 | $ 100.4 | $ 104.4 | $ 84.3 | $ 88.0 | $ 92.6 | $ 98.4 | $ 108.7 | $ 113.2 |
| EBIT(1) | $ 15.0 | $ (2.3) | $ 6.4 | $ 16.1 | $ (6.4) | $ (3.0) | $ 1.4 | $ 5.4 | $ 15.2 | $ 19.4 |
| EBITDA(2) | $ 33.1 | $ 16.2 | $ 26.8 | $ 36.0 | $ 14.2 | $ 17.5 | $ 22.1 | $ 27.5 | $ 37.3 | $ 41.6 |
| Unlevered Free Cash Flow | $ 1.1(3) | $ 9.7 | $ 8.8 | $ 18.0 | $ 23.4 | $ 16.0 | $ 19.9 | $ 16.9 | $ 26.7 | $ 32.0 |

(1) EBIT means earnings before deductions for interest and taxes. It excludes stock-based compensation.
(2) EBITDA means earnings before deductions for interest, taxes, depreciation and amortization. It excludes stock-based compensation.
(3) For the three-month period ending December 31, 2013.

The Chiesi Adjusted July Forecasts were used by Jefferies in connection with its July 15, 2013 preliminary financial analysis (see *Special Factors Consultation with Jefferies, Financial Adviser to Chiesi* ).

The Chiesi Adjusted April Forecast and the Chiesi Adjusted July Forecasts were prepared by Chiesi for its own analysis and for Jefferies preliminary financial analysis solely to assist Chiesi in its evaluation of the Company and do not purport to be appraisals or necessarily reflect the prices at which businesses or securities actually may be sold, which are inherently subject to uncertainty.

Chiesi s analyses took into account numerous assumptions with respect to industry performance, general business and economic conditions and other matters, many of which are beyond the control of Chiesi or the Company. Analyses based on estimates or forecasts of future results are not necessarily indicative of actual past or future values or results, which may be significantly more or less favorable than suggested by such analyses. Because such analyses are inherently subject to uncertainty, being based upon numerous factors or events beyond the control of Chiesi, the Company or their respective advisors, Chiesi does not assume responsibility if future results or actual values are materially different from these forecasts or assumptions.

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**Consultation with Jefferies, Financial Adviser to Chiesi**

Jefferies is acting as Chiesi s financial adviser in connection with the Merger. Chiesi s decision to engage Jefferies to act as its financial adviser was primarily based upon Chiesi s existing relationship with Jefferies and because Jefferies is an internationally recognized investment banking firm with substantial experience in merger and acquisition transactions generally and, specifically, in the healthcare industry. Final determination relating to Jefferies engagement by Chiesi was made by Chiesi s senior management, including Alberto Chiesi and Mr. Di Francesco. Chiesi did not give any consideration to engaging an alternative financial adviser in connection with the Merger. During the course of its engagement, Chiesi s management consulted with Jefferies regarding certain financial matters relating to the Company, including certain preliminary financial analyses as more fully described below relating to the Company, based on publicly available information and certain financial forecasts and other information provided by Chiesi s management and the Company s financial adviser.

In preparing its preliminary financial analyses, Jefferies assumed and relied, without assuming any responsibility for independent investigation or verification, upon the accuracy and completeness of all financial and other information made available to or otherwise reviewed by Jefferies. Jefferies relied on the assurances of the managements and other representatives of the Company and Chiesi that they were not aware of any facts or circumstances that would make such information inaccurate or misleading. In its review, Jefferies did not obtain any independent evaluation or appraisal of any of the assets or liabilities (contingent or otherwise), or conduct a physical inspection of any of the properties or facilities, of the Company or any other entity, and Jefferies was not furnished with, and assumed no responsibility to obtain, any such evaluations, appraisals or physical inspections.

With respect to the financial forecasts provided to and utilized by Jefferies in its preliminary financial analyses, Jefferies was advised, and assumed, that such financial forecasts were reasonably prepared on bases reflecting the best currently available estimates and good faith judgments as to the future financial performance of the Company and the other matters covered thereby. Jefferies expressed no opinion as to any such financial forecasts or the assumptions on which they were based. Jefferies also relied upon the assessments of Chiesi s management as to (i) the potential impact on the Company of market trends and prospects for, and governmental and regulatory policies affecting, the pharmaceutical industry and (ii) the validity of, and risks associated with, the Company s existing and future products, product candidates and intellectual property (including, without limitation, the timing and probability of successful development, testing and marketing of such products and product candidates, approval by appropriate governmental authorities and the validity and life of related patents and potential impact of generic competition).

The estimates of the future performance of the Company in or underlying Jefferies preliminary financial analyses are not necessarily indicative of future results or values, which may be significantly more or less favorable than those estimates. In performing its preliminary financial analyses, Jefferies considered industry performance, general business and economic conditions and other matters, many of which were beyond the control of Chiesi and the Company. Estimates of the financial value of companies do not purport to be appraisals or necessarily reflect the prices at which companies or securities actually may be sold or acquired. With respect to the selected public companies and selected precedent transactions analyses summarized below, no company or transaction used as a comparison was identical or directly comparable to the Company or the Merger. In reviewing its preliminary financial analyses with Chiesi s management, Jefferies did not draw, in isolation, any conclusions from or with regard to any one factor or method of analysis and none of the analyses performed by Jefferies was assigned greater significance by Jefferies than any other. Financial analyses necessarily involve complex considerations and judgments concerning financial and operating characteristics and other factors that could affect the public trading, acquisition or other values of the companies or transactions concerned.

Jefferies preliminary financial analyses were based on economic, monetary, regulatory, market and other conditions existing, and information available, which could be evaluated as of the date of such analyses. Jefferies has no obligation to update, revise or affirm such preliminary financial analyses or to advise any person of any change in any fact or matter affecting any such analyses of which Jefferies subsequently becomes aware. Jefferies made no independent investigation of any legal, accounting or tax matters with respect to the Company or the Merger.

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Jefferies preliminary financial analyses were provided for the use and benefit of Chiesi s management (in its capacity as such). Jefferies was not requested to, and it did not, provide an opinion as to the fairness, from a financial point of view or otherwise, of the consideration payable in the Merger. The summary of the preliminary financial analyses described below are included in this proxy statement only because they were received by Chiesi s management in connection with the proposed Merger.

Jefferies preliminary financial analyses should not be viewed as determinative of Chiesi s views with respect to the Merger or the consideration payable in the Merger. The type and amount of consideration payable in the Merger was determined through negotiation between the Special Committee and Chiesi and the decision to enter into the Merger was solely that of Chiesi and the Company s Board (acting upon the recommendation of the Special Committee). Jefferies did not address the relative merits of the Merger as compared to any alternative transaction or opportunity that might be available with respect to the Company, nor did it address the underlying business decision of any party to engage in the Merger or the terms of the Merger Agreement or related documents, including, without limitation, the form or structure of the Merger or any other agreements or arrangements entered into in connection with the Merger or otherwise. Jefferies financial advisory services to Chiesi in connection with the Merger should not be construed as creating any fiduciary duties on Jefferies part to any party and no recommendation is made by Jefferies as to how any stockholder should vote or act with respect to the Merger or any related matter.

The following is a brief summary of Jefferies preliminary financial analyses provided to Chiesi s management on May 2, 2013 and July 15, 2013. **The preliminary financial analyses summarized below include information presented in tabular format. In order to fully understand Jefferies preliminary financial analyses, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the preliminary financial analyses. Considering the data below without considering the full narrative description of the preliminary financial analyses, including the methodologies and assumptions underlying such analyses, could create a misleading or incomplete view of Jefferies preliminary financial analyses.**

***May 2, 2013 Preliminary Financial Analyses***

Preliminary financial analyses provided to Chiesi s management on May 2, 2013 included the following:

*Discounted Cash Flow Analysis.* Jefferies performed a discounted cash flow analysis of the Company by calculating the estimated present value of the standalone unlevered, after-tax free cash flows that the Company was forecasted to generate during the six month period ending December 31, 2013 through the full fiscal year ending December 31, 2017, based both on financial forecasts and estimates of Chiesi s management and the Company s management. For purposes of this analysis, Jefferies took into account, among other things, the Company s (i) net cash and cash equivalents, (ii) milestone revenue from the Company s PERTZYE product and royalty revenue from the Company s CARDENE I.V. and RETAVASE products, (iii) net operating loss carryforwards expected by the Company s management to be utilized by the Company to reduce future federal income taxes (without an offset for the potential impact of the Company s deferred tax liabilities) and (iv) product development and other corporate expenses. Jefferies calculated terminal values for the Company by applying to the Company s fiscal year 2017 estimated EBITDA a selected range of terminal EBITDA exit multiples of 8.0x to 10.0x derived based on Jefferies professional judgment and generally taking into account forward EBITDA trading multiples of the selected companies referenced below under the caption *Selected Public Companies Analysis*. The cash flows and terminal values were then discounted to present value (as of June 30, 2013) using discount rates ranging from 14.0% to 15.0% derived based on Jefferies professional judgment and utilizing a weighted average cost of capital calculation. These analyses indicated the following approximate implied per share equity value reference ranges for the Company, both including and excluding CRTX067.

| Implied Per Share Equity Value Reference Ranges Based On Chiesi Management Forecasts | |
|---|---|
| **Including CRTX067** | **Excluding CRTX 067** |
| $8.54 - $10.85 | $6.52 - $8.36 |

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**Implied Per Share Equity Value Reference Ranges Based On Company Management Forecasts**

| Including CRTX067 | Excluding CRTX067 |
|---|---|
| $10.24 - $13.14 | $7.94 - $10.36 |

*Selected Public Companies Analysis.* Jefferies reviewed certain financial and stock market data of the Company and the following 11 selected publicly traded companies, referred to as the selected companies, four of which operate in the mature specialty pharmaceuticals sector, referred to as the selected mature specialty pharmaceuticals companies, which selected mature specialty pharmaceuticals companies had overall enterprise values ranging from approximately $919 million to $7.13 billion and fully diluted equity values ranging from approximately $1.22 billion to $3.63 billion based on closing stock prices as of May 1, 2013, and seven of which operate in the emerging specialty pharmaceuticals sector, referred to as the selected emerging specialty pharmaceuticals companies, which selected emerging specialty pharmaceuticals companies had overall enterprise values ranging from approximately $24 million to $599 million and fully diluted equity values ranging from approximately $91 million to $745 million based on closing stock prices as of May 1, 2013. Based on Jefferies professional judgment, Jefferies viewed these selected companies as generally relevant for comparative purposes taking into account, among other factors, the industry sector focus, stage of development, profitability and primary geographic source of revenue of such companies.

| Selected Mature Specialty Pharmaceutical Companies | Selected Emerging Specialty Pharmaceuticals Companies |
|---|---|
| Impax Laboratories, Inc. | Auxilium Pharmaceuticals, Inc. |
| The Medicines Company | Cadence Pharmaceuticals, Inc. |
| Questcor Pharmaceuticals Inc. | Cumberland Pharmaceuticals, Inc. |
| Warner Chilcott plc | DepoMed, Inc. |
| | Horizon Pharma, Inc. |
| | Obagi Medical Products, Inc. |
| | Spectrum Pharmaceuticals, Inc. |

Jefferies reviewed enterprise values of the selected companies, calculated as fully diluted equity values based on closing stock prices on May 1, 2013 plus total debt, preferred equity and non-controlling interests less cash and cash equivalents, as multiples of calendar year 2013 and calendar year 2014 estimated revenue and calendar year 2013 and calendar year 2014 estimated earnings before interest, taxes, depreciation and amortization as adjusted to add back stock-based compensation expense, referred to as adjusted EBITDA. The overall low to high calendar year 2013 and calendar year 2014 estimated revenue multiples observed for the selected companies were 0.4x to 5.8x (with an overall median of 2.0x and overall mean of 2.3x) and 0.6x to 3.5x (with an overall median of 1.8x and overall mean of 2.0x), respectively. The overall low to high calendar year 2013 and calendar year 2014 estimated adjusted EBITDA multiples observed for the selected companies were 1.5x to 20.2x (with an overall median of 10.5x and overall mean of 10.9x) and 3.7x to 13.6x (with an overall median of 6.9x and overall mean of 8.0x), respectively. Jefferies then applied calendar year 2013 and calendar year 2014 estimated revenue multiples of 2.00x to 2.25x and 1.85x to 2.10x, respectively, and selected ranges of calendar year 2013 and calendar year 2014 estimated adjusted EBITDA multiples of 8.0x to 10.0x and 7.5x to 9.5x, respectively, derived from the selected companies to corresponding data of the Company based on financial forecasts and estimates of Chiesi s management and the Company s management. Financial data of the selected companies were based on publicly available research analysts estimates, public filings and other publicly available information. This analysis indicated the following approximate implied per share equity value reference ranges for the Company:

| Implied Per Share Equity Value Reference Ranges Based On Chiesi Management Forecasts | | | |
|---|---|---|---|
| 2013E Revenue | 2014E Revenue | 2013E Adjusted EBITDA | 2014E Adjusted EBITDA |
| $9.78 - $11.15 | $8.96 - $10.33 | $8.72 - $11.19 | $7.21 - $9.45 |

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| Implied Per Share Equity Value Reference Ranges Based On Company Management Forecasts | | | |
|---|---|---|---|
| 2013E Revenue | 2014E Revenue | 2013E Adjusted EBITDA | 2014E Adjusted EBITDA |
| $10.46 - $11.91 | $9.05 - $10.44 | $10.64 - $13.61 | $7.47 - $9.78 |

*Selected Precedent Transactions Analysis.* Jefferies reviewed publicly available financial information for the following 13 selected transactions announced between May 16, 2007 and March 30, 2013 involving companies in the specialty pharmaceuticals sector, referred to as the selected precedent transactions, which selected precedent transactions had overall transaction values ranging from approximately $300 million to $4.45 billion. Based on Jefferies professional judgment, Jefferies viewed these selected transactions as generally relevant for comparative purposes taking into account, among other factors, the industry sector focus, stage of development, profitability and primary geographic source of revenue of the target companies or businesses acquired in such transactions.

| Announcement Date | Acquiror | Target |
|---|---|---|
| 03/20/13 | Valeant Pharmaceuticals International, Inc. | Obagi Medical Products, Inc. |
| 07/16/12 | TPG Capital, L.P. | Par Pharmaceutical Companies, Inc. |
| 03/26/12 | Bausch & Lomb Incorporated | Ista Pharmaceuticals, Inc. |
| 01/12/10 | Axcan Pharma Holding B.V. | Eurand N.V. |
| 10/12/10 | Pfizer Inc. | King Pharmaceuticals, Inc. |
| 06/21/10 | Valeant Pharmaceuticals International, Inc. | Biovail Corporation |
| 02/01/10 | Cephalon, Inc. | Mepha Holding AG |
| 11/09/09 | Sigma-Tau Finanziaria S.p.A. | Enzon Pharmaceuticals Inc. |
| 09/03/09 | Dainippon Sumitomo Pharma Co. Ltd. | Sepracor Inc. |
| 08/24/09 | Warner Chilcott plc | The Procter & Gamble Company (Pharmaceutical Division) |
| 09/01/08 | Shionogi Inc. | Sciele Pharma, Inc. |
| 11/29/07 | TPG Inc. | Axcan Pharma Inc. |
| 05/16/07 | Warburg Pincus, LLC | Bausch & Lomb Incorporated |

Jefferies reviewed transaction values of the selected transactions, calculated as the purchase prices paid for the target companies equity plus total debt, preferred equity and non-controlling interests less cash and cash equivalents, as multiples of the latest 12 months revenue and adjusted EBITDA. The overall low to high latest 12 months revenue multiples observed for the selected transactions were 1.3x to 5.0x (with a median of 2.4x and a mean of 2.5x). The overall low to high latest 12 months adjusted EBITDA multiples observed for the selected transactions were 6.5x to 19.4x (with a median of 9.6x and a mean of 11.0x). Jefferies then applied a selected range of latest 12 months revenue and adjusted EBITDA multiples of 2.00x to 2.50x and 10.0x to 12.0x, respectively, derived from the selected transactions to the average of the Company s calendar year 2012 and latest 12 months (estimated as of June 30, 2013) revenue and adjusted EBITDA. Financial data of the selected transactions were based on publicly available information. Financial data of the Company were based on the Company s public filings and financial forecasts and other estimates of Chiesi s management and the Company s management. This analysis indicated the following approximate implied per share equity value reference ranges for the Company:

**Implied Per Share Equity Value**

**Reference Ranges Based on Chiesi Management Forecasts**

| LTM Revenue | LTM Adjusted EBITDA |
|---|---|

| | |
|---|---|
| $8.53 - $10.96 | $8.75 - $10.74 |

**Implied Per Share Equity Value**

**Reference Ranges Based on Company Management Forecasts**

| LTM Revenue | LTM Adjusted EBITDA |
|---|---|
| $8.87 - $11.38 | $9.95 - $12.18 |

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*Other Information.* Jefferies observed certain additional factors that were noted for informational purposes, including premiums paid in 16 selected U.S. going-private transactions that, after applying a selected range of premiums (based on the overall 20th percentile to 50th percentile implied premiums derived from the closing stock prices of such target companies one trading day, one week and one month prior to public announcement of the relevant transaction) to the closing price of the Common Stock on February 19, 2013 (the last trading day prior to announcement of Chiesi s offer to acquire the remaining interest in the Company), resulted in an implied per share equity value reference range for the Company of approximately $6.60 to $8.25. Jefferies also observed premiums paid in 13 selected healthcare going-private transactions that, after applying a selected range of premiums (based on the overall 10th percentile to 55th percentile implied premiums derived from the closing stock prices of such target companies one trading day, one week and one month prior to public announcement of the relevant transaction) to the closing price of the Common Stock on February 19, 2013, resulted in an implied per share equity value reference range for the Company of approximately $6.05 to $8.53.

***July 15, 2013 Preliminary Financial Analysis***

Preliminary financial analysis provided to Chiesi s management on July 15, 2013 included the following:

*Discounted Cash Flow Analysis.* Jefferies performed a discounted cash flow analysis of the Company by calculating the estimated present value of the unlevered, after-tax free cash flows that the Company was forecasted to generate, based on financial forecasts and estimates of Chiesi s management, during the three-month period ending December 31, 2013 through the full fiscal year ending December 31, 2022. For purposes of this analysis, Jefferies took into account, among other things, the Company s (i) net cash and cash equivalents, (ii) milestone revenue from the Company s PERTZYE product and royalty revenue from the Company s CARDENE I.V. and RETAVASE products, (iii) net operating loss carryforwards expected by the Company s management to be utilized by the Company to reduce future federal income taxes (without an offset for the potential impact of the Company s deferred tax liabilities) and (iv) product development and other corporate expenses. A terminal value for the Company was calculated by applying to the Company s fiscal year 2022 estimated EBITDA a selected range of terminal EBITDA exit multiples of 4.0x to 8.0x derived based on Jefferies professional judgment and generally taking into account forward EBITDA trading multiples of the selected companies referenced above under the caption *Selected Public Companies Analysis* and certain issues and risks associated with the Company s products and product candidates, including potential risks of generic competition relating to the Company s CARDENE I.V. product. The cash flows and terminal values were then discounted to present value (as of September 30, 2013) using discount rates ranging from 14.5% to 16.5% derived based on Jefferies professional judgment and utilizing a weighted average cost of capital calculation taking into account, among other things, certain market changes since the date of Jefferies May 2, 2013 preliminary financial analyses. Jefferies performed this analysis utilizing Chiesi management s base case forecasts as well as Case 1, Case 2 and Case 3 prepared by Chiesi management as sensitivities to such base case forecasts, which indicated the following approximate implied per share equity value reference ranges for the Company:

| **Implied Per Share Equity Value Reference Ranges Based On Chiesi Management Forecasts** | | | |
|---|---|---|---|
| **Base Case** | **Case 1** | **Case 2** | **Case 3** |
| $5.00 - $8.28 | $3.15 - $5.34 | $3.38 - $5.59 | $3.57 - $5.79 |

*Miscellaneous*

Under the terms of Jefferies engagement as Chiesi s financial adviser, Chiesi has agreed to pay Jefferies an aggregate fee of US$600,000 contingent upon completion of the Merger and within the past two years previously paid Jefferies a retainer fee of $200,000 for general financial advisory services under a prior engagement unrelated to the Merger. In addition, Chiesi has agreed to reimburse Jefferies for its expenses, including fees and expenses of counsel, and to indemnify Jefferies and related parties against liabilities, including liabilities under federal securities laws, arising out of or in connection with the services rendered and to be rendered by Jefferies under its engagement.

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In the ordinary course of business, Jefferies and its affiliates may trade or hold securities of the Company and other participants in the Merger for Jefferies own account and for the accounts of Jefferies customers and, accordingly, may at any time hold long or short positions in those securities. In addition, Jefferies may in the future seek to provide financial advisory and financing services to the Company, other participants in the Merger or entities that are affiliated with the Company or such other participants, for which Jefferies would expect to receive compensation.

Jefferies was selected to act as Chiesi s financial adviser in connection with the Merger because Jefferies is an internationally recognized investment banking firm with substantial experience in merger and acquisition transactions generally and, specifically, in the healthcare industry. Jefferies is regularly engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, leveraged buyouts, negotiated underwritings, competitive bids, secondary distributions of listed and unlisted securities and private placements.

**Purposes and Reasons of the Company for the Merger**

Our purpose for engaging in the Merger is to enable our stockholders to receive $9.50 per share in cash, without interest and subject to deduction for any required withholding taxes, which per-share merger consideration to be received in the Merger represents (i) a premium of approximately 78% over our closing price of $5.35 on February 15, 2013, the last trading day before Chiesi made the Initial Proposal, and (ii) a premium of approximately 42% over the high end of the Initial Proposal. We have determined to undertake the Merger at this time based on the analyses, determinations and conclusions of the Special Committee and the Board described in detail above under *Special Factors Reasons for the Merger; Recommendation of the Board of Directors and the Special Committee* beginning on page 31.

**Purposes and Reasons of Chiesi and Chiesi US for the Merger**

Under the SEC rules governing going private transactions, each of Chiesi and Chiesi US is an affiliate of the Company and, therefore, is required to express such parties beliefs as to the purposes of and reasons for the Merger to the Unaffiliated Stockholders. Each of Chiesi and Chiesi US is making the statements included in this section solely for the purpose of complying with the requirements of Rule 13e-3 and related rules under the Exchange Act. The views of Chiesi and Chiesi US should not be construed as a recommendation to any stockholder as to how that stockholder should vote on the proposal to adopt the Merger Agreement.

The purpose of the Merger is for Chiesi to acquire all outstanding shares of the Common Stock that it does not currently own (directly through Chiesi US). The Merger will allow Chiesi to acquire the Company s business and operate it as a private company.

Before making the Initial Proposal, Chiesi considered various alternatives to the Merger, including maintaining the status quo as described above under *Special Factors Background of the Merger* .

Chiesi and Chiesi US believe that the Company s business will be more successful than at present if the Company is operated as a privately held entity. Without the constraint of the public market s emphasis on quarterly earnings, especially quarterly earnings growth, and its reaction to public events such as revenue fluctuations, the patent expiration of certain products and challenges to other products, as well as overall potential generic competition, the Company will have greater operating flexibility to focus on enhancing long-term value by emphasizing growth and operating cash flow. Chiesi and Chiesi US also believe that an emphasis on long-term growth rather than short-term earnings could eventually result in greater business and capital market opportunities than would be available to the Company if it remained publicly held. In addition, Chiesi and Chiesi US believe that, as a privately held entity, the Company will be able to make decisions that may negatively affect quarterly earnings but that may increase the value of the Company s assets or earnings over the long term. In a public company setting, decisions that negatively affect earnings could significantly reduce the per share price if analysts short-term earnings expectations are not met or exceeded. Further, the investing public s general level of confidence (or lack thereof) in the stock markets will no longer affect the Company s stock price.

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The Merger advances Chiesi s initiative to build a larger global presence and represents a significant step towards strengthening its presence in the United States. The Merger creates a foundation for new projects in special care and respiratory disorders and will provide a sales channel on all products Chiesi intends to commercialize in the U.S. Through this transaction, Chiesi will become a bigger player in special care in the U.S. The Merger also positions the Company for long-term growth and development as a private company and affords a level of financial flexibility required to enhance the Company s product pipeline, strengthen its marketing network and allow it to capitalize on additional opportunities to acquire high-quality special care products.

Following the Merger, at such time as the Company is no longer subject to the reporting requirements of the Exchange Act, the Company will be able to eliminate the time devoted by its management and some of its other employees to matters that relate exclusively to the Company being a publicly held company. Going private will also reduce certain costs which relate to being a public company, including the burdens of preparing periodic reports under federal securities laws and the costs of maintaining investor relations staff and resources and complying with the Sarbanes-Oxley Act of 2002, enabling management to devote more of its time and energy to core business operations.

These assessments are based upon publicly available information regarding the Company, Chiesi s knowledge of the Company and Chiesi s experience in investing in or managing public and private companies generally.

**Plans for the Company After the Merger**

Following consummation of the Merger, Chiesi expects to operate the Company consistently with past practice. Chiesi is currently conducting a review of the Company and its business and operations with a view towards determining how to redirect the Company s operations to improve the Company s long-term earnings potential as a private company, and expects to complete such review following consummation of the Merger. Following such review, Chiesi will consider what, if any, changes would be desirable in light of then-existing circumstances. It is anticipated that some assets could be identified for sale, some actions may be taken to reduce costs (for example, purchases of insurance and other services may be consolidated with certain other entities controlled by Chiesi, if such consolidation would result in cost savings) and that expenses associated with stockholder relations will be reduced.

The surviving corporation in the Merger will remain in existence as a wholly-owned subsidiary of Chiesi after the Merger. Chiesi presently intends that, upon consummation of the Merger, the officers of the Company will be designated as the officers of the surviving corporation. While Chiesi will retain the ability to modify employee compensation, no additional or improved compensation or benefits to the Company s employees have been agreed to or promised in connection with the Merger.

Except as disclosed in this proxy statement, Chiesi does not have any present plans or proposals that would result in an extraordinary corporate transaction, such as a merger, reorganization, liquidation, relocation of operations, or sale or transfer of a material amount of assets, involving the Company or its subsidiaries, or any material changes in the Company s corporate structure, dividend rate or policy, indebtedness or capitalization, business or composition of its management or personnel.

**Certain Effects of the Merger**

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.

The Merger Agreement provides that at the effective time of the Merger, each stock option previously issued pursuant to a compensatory plan of the Company and that entitles the holder to purchase shares of Common Stock, whether vested or unvested and whether with an exercise price per share that is greater or less than, or equal to, the merger consideration, that is outstanding immediately prior to the effective time will become fully vested and be cancelled 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 such stock option multiplied by (ii) the total number of shares subject to such stock option, without interest, less applicable withholding taxes.

The Merger Agreement provides that at the effective time of the Merger, each share of restricted stock previously issued pursuant to a compensatory plan of the Company that is outstanding and subject to restrictions immediately prior to the effective time will be canceled and the holder of such share of restricted stock will be entitled to receive, as soon as practicable following the effective time of the Merger, $9.50 in cash, without interest, less applicable withholding taxes.

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 such stockholders, as described above, representing a premium of approximately 78% above the closing price of the Common Stock on February 15, 2013, the last trading day prior to 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 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. See *Special Factors Material U.S. Federal Income Tax Consequences of the Merger* beginning on page 71.

Upon the completion of the Merger, all of the equity interests in the Company will be owned by Chiesi and its wholly-owned subsidiaries. If the Merger is completed, Chiesi will be the sole beneficiary of our future earnings, growth and value, if any, and Chiesi will have exclusive control over the Company and its business operations. Conversely, after the Merger, Chiesi will bear the entire risk associated with the Company s future operations, including the risks of any decrease in the earnings, growth or value of the Company after the Merger.

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 $1.2 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.

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The directors of Chiesi US immediately prior to the effective time of the Merger will be the directors of the surviving corporation and the officers of the Company immediately prior to the effective time of the Merger will be the officers of the surviving corporation. The certificate of incorporation of the surviving corporation will be amended and restated in its entirety to be in the form of the certificate of incorporation attached as Exhibit A to the Merger Agreement. The bylaws of the surviving corporation will be amended and restated in their entirety to be in the form of the bylaws attached as Exhibit B to the Merger Agreement.

Chiesi currently owns (through Chiesi US) 15,687,538 shares of Common Stock, representing approximately 58% of all issued and outstanding shares of Common Stock. Chiesi also has the right to acquire an additional 4,226,542 shares of Common Stock upon the conversion of certain debt obligations of the Company. As a result of these holdings, Chiesi s beneficial ownership of the Common Stock is approximately 64%. This beneficial ownership calculation does not give effect to the voting agreement entered into by Chiesi with Mr. Collard and certain entities controlled by him, which cover an aggregate of approximately 1,612,225 shares of Common Stock. We reported a net loss for the year ended December 31, 2012 of approximately $11.9 million, or $.46 per share of Common Stock. Our net book value as of December 31, 2012 (reflected on our balance sheet as stockholders equity) was approximately $166.2 million, or $6.27 per share of Common Stock. Based on Chiesi s beneficial ownership of 64% of the Common Stock, Chiesi s indirect proportionate interest in our net loss for the year ended December 31, 2012 was approximately $7.6 million and Chiesi s indirect proportionate interest in our net book value at December 31, 2012 was approximately $106.4 million. When the Merger is completed, Chiesi will beneficially own 100% of the outstanding Common Stock and will have a corresponding 100% interest in our net income or net loss (a net loss of $11.9 million for the year ended December 31, 2012, reflecting an increase in that interest of approximately $4.3 million) and a 100% interest in our net book value ($166.2 million as of December 31, 2012, reflecting an increase in that interest of approximately $59.8 million).

**Projected Financial Information**

We do not generally make public projections as to future performance or earnings beyond the current fiscal year and we are especially cautious about making projections for extended periods due to the unpredictability of our business and the markets in which we operate. However, financial forecasts prepared by management were made available to the Board, the Special Committee and the Special Committee s advisers in connection with their respective consideration of strategic alternatives available to us. Certain of these financial forecasts also were made available to Chiesi, Chiesi US and Chiesi s financial advisers.

In preparing the financial forecasts, the Company s management made the following assumptions for the periods from 2013 to 2022:

- the revenue forecast is based on a product-by-product assessment of the potential future sales of the products already owned by the Company (including products presently under development by the Company);

- revenue contributions beginning in 2013 for PERTZYE and BETHKIS, in 2015 for RETAVASE and in 2017 for RETAFLO;

- significant increases through 2016 in research and development costs for RETAVASE and RETAFLO;

- an expansion of the sales force beginning in 2013;

- no material acquisitions; and

- an increase in our cash position with no investment income.

Expenses associated with the Merger are reflected in the forecasts.

Summaries of these financial forecasts are being included in this proxy statement not to influence your decision whether to vote for or against the proposal to adopt the Merger Agreement, but because these financial forecasts were made available to the Board, the Special Committee and the Special Committee s advisers, as well as, in the case of certain of these financial forecasts, to Chiesi, Chiesi US and Chiesi s financial advisers. The inclusion of this information should not be regarded as an indication that the Company, the Board, the Special Committee, Chiesi, Chiesi US, or their respective advisers or other representatives, or any other recipient of this information considered, or now considers, such financial projections or forecasts to be necessarily predictive of actual future results. No person has made or makes any representation to any stockholder regarding the information included in these financial forecasts.

Although presented with numerical specificity, these financial forecasts are based upon a variety of estimates and numerous assumptions made by the Company s management with respect to, among other matters, industry performance, general business, economic, market and financial conditions and other matters, including the factors described in the section titled Risk Factors of our annual report on Form 10-K for the year ended December 31, 2012, many of which are difficult to predict, are subject to significant economic and competitive uncertainties, and are beyond our control. In addition, since the financial forecasts cover multiple years, such information by its nature becomes less reliable with each successive year. As a result, there can be no assurance that the estimates and assumptions made in preparing the financial forecasts will prove accurate, that the projected results will be realized or that actual results will not be significantly higher or lower than projected.

The financial forecasts do not take into account any circumstances or events occurring after the date they were prepared, and, except as may be required in order to comply with applicable securities laws, we do not intend to update, or otherwise revise, the financial forecasts, or the specific portions presented, to reflect circumstances existing after the date when they were made or to reflect the occurrence of future events, even in the event that any or all of the assumptions are shown to be in error. In addition, the financial forecasts assume that the Company will remain a publicly traded company.

The financial forecasts were not prepared with a view toward public disclosure, soliciting proxies or complying with generally accepted accounting principles ( GAAP ), the published guidelines of the SEC regarding financial projections and forecasts or the guidelines established by the American Institute of Certified Public Accountants for preparation and presentation of financial projections and forecasts. Neither Ernst & Young LLP, our independent registered public accounting firm, nor any other independent registered public accounting firm has examined, compiled or performed any procedures with respect to the accompanying financial forecasts, and, accordingly, neither Ernst & Young LLP nor any other public accounting firm expresses an opinion or any other form of assurance with respect to such projections and forecasts. The Ernst & Young LLP report and Grant Thornton LLP reports incorporated by reference into this proxy statement relate to the Company s historical financial information. They do not extend to the financial forecasts and should not be interpreted to do so.

The financial forecasts included non-GAAP financial measures, which were presented because management believed they could be useful indicators of the Company s projected future operating performance. The non-GAAP financial measures included non-GAAP income from operations and non-GAAP net income. The non-GAAP financial measures reflect adjustments to exclude stock-based compensation expense, amortization of product rights, transaction-related expenses and changes in acquisition-related contingent payments. These items are excluded from the non-GAAP financial measures in the forecasts either because they are non-cash items, which are not useful in the budgeting process for which the forecasts are primarily prepared and used to support, or because including them would require information about future transactions as to which management has no specific information. The financial forecasts included in this proxy statement should not be considered in isolation or in lieu of the Company s operating and other financial information determined in accordance with GAAP (see *Important Information Regarding Cornerstone Selected Summary Historical Consolidated Financial Data* beginning on page 101). In addition, because non-GAAP financial measures are not determined consistently by all companies, the non-GAAP measures presented in these financial forecasts may not be comparable to similarly titled measures of other companies.

For the foregoing reasons, as well as the bases and assumptions on which the financial forecasts were compiled, the inclusion of specific portions of the financial forecasts in this proxy statement should not be regarded as an

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indication that we consider such financial forecasts to be necessarily predictive of actual future events, and the projections and forecasts should not be relied on as such an indication. No one has made any representation to any stockholder of the Company or anyone else regarding the information included in the financial forecasts discussed below.

***F-1 Forecast***

Our management routinely prepares and updates a financial forecast, which we refer to as the F-1 Forecast. The F-1 Forecast is used primarily for budgeting and internal planning purposes. On April 2, 2013, our management presented its most recently updated F-1 Forecast, which covered the period from 2013 through 2022, to our Board.

Our management prepared the F-1 Forecast in a process that reflected management s best estimates of the Company s future financial performance in light of management s then-current understanding of market conditions and trends in the specialty pharmaceutical industry, competitive dynamics affecting the Company, the Board s key strategic and investment priorities for the Company and other factors management deemed relevant. The F-1 Forecast is prepared and used by our management for budgeting purposes principally to ascertain and plan for the Company s near-term cash requirements and product development and manufacturing activities. The F-1 Forecast is not, and does not purport to be, a valuation model. Valuing a business in the specialty pharmaceutical industry such as the Company s business requires among other things the exercise of judgment as to the probability of various future outcomes including in this case the likelihood that the Company s pipeline products will be successfully developed, will obtain the requisite regulatory approvals, and will be produced in commercial quantities in an efficient and regulatorily compliant manner; the probable timing and cost of the commercialization process; the likelihood that competing products will be introduced into the market; and the size of the targeted market (potential sales volume). The F-1 Forecast is not designed to, and does not, reflect judgments on any of these topics. Furthermore, the Company s management team advised the Special Committee that, even though the F-1 Forecast extends through 2022, in fact management pays relatively little attention to periods more than 12-24 months following the date of preparation. Accordingly, the F-1 Forecast does not alone provide a basis for valuing the Company. Instead, it provides a series of inputs that may be appropriate for inclusion in a valuation model, after appropriate modification.

The F-1 Forecast also was made available to the Special Committee and the Special Committee s advisers. The April 2, 2013 version of the F-1 Forecast subsequently was sent to Jefferies.

Set forth below in summary form are the financial projections contained in the April 2, 2013 version of the F-1 Forecast.

| | Year Ending December 31, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** |
| | *(in millions)* | | | | | | | | | |
| Net revenues | $ 161.2 | $ 153.3 | $ 168.0 | $ 183.2 | $ 192.0 | $ 218.2 | $ 263.4 | $ 272.4 | $ 279.2 | $ 284.5 |
| Gross profit (exclusive of amortization of product rights) | $ 115.2 | $ 101.2 | $ 109.8 | $ 121.5 | $ 127.4 | $ 147.3 | $ 181.7 | $ 189.0 | $ 194.5 | $ 198.3 |
| Selling, general and administrative | $ 61.0 | $ 56.4 | $ 58.4 | $ 60.2 | $ 62.8 | $ 64.3 | $ 65.0 | $ 65.4 | $ 65.9 | $ 66.2 |
| | $ 23.3 | $ 13.9 | $ 20.7 | $ 37.7 | $ 41.6 | $ 61.0 | $ 94.9 | $ 100.3 | $ 105.2 | $ 108.7 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Income from operations | | | | | | | | | | |
| Net income | $ 9.9 | $ 3.6 | $ 9.3 | $ 19.8 | $ 23.8 | $ 37.2 | $ 58.5 | $ 61.8 | $ 64.9 | $ 67.1 |
| Non-GAAP income from operations(1) | $ 51.3 | $ 38.7 | $ 47.2 | $ 63.1 | $ 66.9 | $ 85.3 | $ 118.7 | $ 125.6 | $ 130.5 | $ 134.0 |
| Non-GAAP net income(2) | $ 27.7 | $ 19.7 | $ 26.1 | $ 36.4 | $ 40.3 | $ 52.9 | $ 73.7 | $ 78.0 | $ 81.0 | $ 83.2 |

(1) Non-GAAP income from operations excludes amortization of product rights, stock-based compensation, transaction-related expenses and change in acquisition-related contingent payments.

(2) Non-GAAP net income excludes amortization of product rights, stock-based compensation, transaction-related expenses and change in acquisition-related contingent payments and associated tax impact.

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*Reconciliation:*

The items excluded from non-GAAP income from operations and non-GAAP net income were quantified in the April 2, 2013 version of the F-1 forecast as follows:

| | Year Ending December 31, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** |
| | *(in millions)* | | | | | | | | | |
| Amortization of product rights | $ 17.4 | $ 18.0 | $ 20.0 | $ 19.5 | $ 20.3 | $ 20.3 | $ 20.4 | $ 21.8 | $ 21.8 | $ 21.8 |
| Stock-based compensation | $ 2.8 | $ 3.0 | $ 3.1 | $ 3.2 | $ 3.3 | $ 3.4 | $ 3.4 | $ 3.4 | $ 3.4 | $ 3.4 |
| Transaction-related expenses | $ 3.7 | $ 0.08 | $ 0.08 | $ 0.08 | $ 0.08 | $ 0.09 | $ 0.09 | $ 0.09 | $ 0.09 | $ 0.09 |
| Changes in acquisition-related contingent payments | $ 4.1 | $ 3.7 | $ 3.3 | $ 2.6 | $ 1.6 | $ 0.6 | | | | |
| Associated tax impact | $ (10.2) | $ (8.0) | $ (9.8) | $ (8.8) | $ (8.8) | $ (8.6) | $ (8.6) | $ (9.2) | $ (9.2) | $ (9.2) |

***May 9, 2013 F-1 Forecast Update***

On May 9, 2013, the Company announced its financial results for the first quarter of 2013. These 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 management s most recent financial forecast.

Consistent with prior practice, following the publication of the first quarter financial results, management made certain adjustments to the F-1 Forecast for the purpose of updating the financial projections for 2013 and 2014. On May 9, 2013, management provided an updated financial forecast (the May 9 F-1 Forecast ) to the Special Committee and the Special Committee s financial advisers. The May 9 F-1 Forecast reflected adjustments to the levels of selling, general and administrative expenses and income from operations projected for 2013 and 2014 and adjustments to the levels of net revenue and gross profit projected for each of the years covered by the F-1 Forecast (2013 through 2022). Our management told Lazard s representatives that the levels of projected operating expenses shown in the April 2, 2013 version of the F-1 Forecast for the years 2015 through 2022 continued to reflect management s best estimates. Based on the materials and information provided by management, Lazard then provided Jefferies with schedules derived from the May 9 F-1 Forecast showing management s projections of net revenue and gross profit for the years 2013 through 2022 and management s projections of selling, general and administrative expenses and income from operations for 2013 and 2014 and that differed from the April 2, 2013 version. The projected amortization of product rights used to calculate gross profit in the May 9 F-1 Forecast was the same as in the April 2, 2013 version of the F-1 Forecast.

Set forth below in summary form are the financial projections contained in the May 9 F-1 Forecast that were provided to Jefferies.

| Year Ending December 31, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **2013** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** |
| *(in millions)* | | | | | | | | | |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Net revenues | $ 161.2 | $ 159.4 | $ 170.4 | $ 185.5 | $ 193.7 | $ 219.5 | $ 264.7 | $ 273.6 | $ 280.4 | $ 285.7 |
| Gross profit (exclusive of amortization of product rights) | $ 114.5 | $ 104.8 | $ 111.5 | $ 123.2 | $ 128.5 | $ 148.2 | $ 182.5 | $ 189.7 | $ 195.0 | $ 198.7 |
| Selling, general and administrative | $ 61.1 | $ 54.9 | | | | | | | | |
| Income from operations | $ 23.0 | $ 19.1 | | | | | | | | |

After the Special Committee received the May 9, 2013 updates to the F-1 Forecast and following discussions with Chiesi regarding the assumptions reflected in the updated F-1 Forecast, the Special Committee conducted a product-by-product analysis and a 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 management-prepared F-1 Forecast, the Special Committee directed Lazard to revise the financial projections contained in the F-1 Forecast to reduce the revenue forecast for the CRTX 067 product and increase the projected

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product development expenses and reflect a delayed launch for the RETAFLO and RETAVASE products. 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. For example, the members of the Special Committee who have experience with pharmaceutical product development, drug manufacturing, clinical trials and FDA approval processes decided that certain manufacturing processes and clinical trials were likely to take longer and to cost more in order to support the FDA approval than was reflected in the F-1 Forecast. In deciding to make these changes the members of the Special Committee also took into account the delays the Company has experienced in the recent past in its product development activities as well as the fact that Cornerstone s management team had relatively limited experience in conducting substantial clinical trials of the type now being undertaken by the Company. The Special Committee also directed Lazard to conduct sensitivity analyses on some assumptions reflected in the F-1 Forecast that the Special Committee considered too conservative, notably in respect of the sharp near-term reduction in cash flow from ZYFLO that was reflected in the F-1 Forecast.

The Special Committee did not direct our management to change the F-1 Forecast itself to reflect these adjustments because doing so would be inconsistent with the purpose of the F-1 Forecast. For example, the Special Committee considered it prudently conservative to assume for purposes of planning corporate cash requirements that near term product development would proceed as planned without delays (and that, therefore, the capital outlays associated with that activity would not be postponed), while for purposes of valuation it would be appropriate to take into account delays that members of the Special Committee considered likely.

The following presents in summary form the projections contained in the F-1 Forecast, as updated through May 9, 2013 after giving effect to the adjustments that were made at the direction of the Special Committee:

| | **Year Ending December 31,** | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2013** | **2014** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020** | **2021** | **2022** |
| | *(in millions)* | | | | | | | | | |
| Net revenues | $ 161.2 | $ 151.7 | $ 170.3 | $ 177.3 | $ 182.3 | $ 194.2 | $ 222.1 | $ 265.0 | $ 275.9 | $ 281.0 |
| Gross profit (exclusive of amortization of product rights) | $ 114.5 | $ 102.2 | $ 111.5 | $ 116.6 | $ 119.6 | $ 128.5 | $ 148.8 | $ 182.1 | $ 190.6 | $ 194.0 |
| Selling, general and administrative | $ 61.1 | $ 54.5 | $ 57.4 | $ 57.8 | $ 59.9 | $ 59.6 | $ 65.1 | $ 65.6 | $ 66.1 | $ 66.7 |
| Income from operations | $ 22.0 | $ 13.8 | $ 20.4 | $ 33.3 | $ 34.7 | $ 46.9 | $ 62.0 | $ 93.2 | $ 101.1 | $ 104.0 |
| Non-GAAP income from operations(1) | $ 48.7 | $ 38.4 | $ 46.9 | $ 58.6 | $ 60.0 | $ 71.2 | $ 85.8 | $ 118.5 | $ 126.4 | $ 129.3 |

(1) Non-GAAP income from operations excludes amortization of product rights, stock-based compensation, transaction-related expenses and change in acquisition-related contingent payments.

These adjustments had the net effect of reducing probability-adjusted total net revenue, operating income and adjusted EBITDA in each of the projected periods and reducing the range of illustrative net present values per share resulting from Lazard s sum-of-the-parts DCF analysis from $9.15-$13.90 to $8.40-$12.80, and the range of illustrative net present values per share resulting from Lazard s going concern DCF analysis decreased from $8.50-$13.80 to

$7.80-$12.70. These revised projections prepared at the direction of the Special Committee were not provided to Jefferies or Chiesi.

***Subsequent F-1 Forecast Update***

After the Special Committee and the Board approved the Merger and we signed the Merger Agreement, our management adjusted the F-1 Forecast to update the financial projections it contains for the second half of 2013 and through 2017, to reflect management s current expectations as to our future cash flows and cash requirements. The revisions to the F-1 Forecast reflected adjustments to the timing of the launches of PERTZYE, BETHKIS and CRTX 067, ZYFLO price increase assumptions, costs for legal expenses related to Paragraph IV notice letters and related litigation and projected RETAVASE and RETAFLO research and development costs. The Special Committee has considered these most recent revisions to the F-1 Forecast and continues to believe

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that the terms of the Merger are fair to the stockholders other than Chiesi (including the unaffiliated security holders) and continues to recommend that stockholders vote for the adoption of the Merger Agreement. Set forth below in summary form are the financial projections in the F-1 Forecast as most recently updated by our management:

| | Year Ending December 31, | | | | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 | 2017 |
| | (in millions) | | | | |
| Net revenues | $ 160.3 | $ 156.0 | $ 169.8 | $ 184.5 | $ 192.3 |
| Gross profit (exclusive of amortization of product rights) | $ 116.8 | $ 104.4 | $ 111.5 | $ 122.6 | $ 127.9 |
| Selling, general and administrative | $ 59.4 | $ 57.4 | $ 59.8 | $ 58.4 | $ 61.2 |
| Income from operations | $ 26.8 | $ 13.2 | $ 26.1 | $ 41.6 | $ 44.2 |
| Net income | $ 10.8 | $ 3.3 | $ 12.3 | $ 21.9 | $ 25.5 |
| Non-GAAP income from operations(1) | $ 55.2 | $ 37.1 | $ 50.4 | $ 65.3 | $ 68.2 |
| Non-GAAP net income(2) | $ 30.5 | $ 18.9 | $ 27.8 | $ 37.7 | $ 41.3 |

(1) Non-GAAP income from operations excludes amortization of product rights, stock-based compensation, transaction-related expenses and change in acquisition-related contingent payments.

(2) Non-GAAP net income excludes amortization of product rights, stock-based compensation, transaction-related expenses and change in acquisition-related contingent payments and associated tax impact.

*Reconciliation:*

The items excluded from non-GAAP income from operations and non-GAAP net income were quantified in the subsequent F-1 forecast as follows:

| | Year Ending December 31, | | | | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 | 2017 |
| | (in millions) | | | | |
| Amortization of product rights | $ 17.3 | $ 17.9 | $ 18.5 | $ 19.4 | $ 20.4 |
| Stock-based compensation | $ 2.8 | $ 2.9 | $ 3.1 | $ 3.2 | $ 3.3 |
| Transaction-related expenses | $ 2.7 | $ 0.08 | $ 0.08 | $ 0.08 | $ 0.08 |
| Changes in acquisition-related contingent payments | $ 5.5 | $ 3.1 | $ 2.7 | $ 2.0 | $ 1.1 |
| Associated tax impact | $ (8.7) | $ (8.4) | $ (8.7) | $ (8.0) | $ (8.3) |

**Financing for the Merger; No Financing Condition**

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.

**Interests of the Company s Directors and Executive Officers in the Merger**

In considering the recommendation of our 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 take into account the fact that, by reason of their service on our Board, the directors 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.

Our executive officers have interests in the Merger that are different from, or in addition to, interests of our other stockholders generally because under their existing compensation arrangements, those executive officers may become entitled to the following types of payments and benefits as a result of or in connection with the Merger:

- cash payments under severance agreements;
- 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 described in more detail below.

The members of the Special Committee evaluated and negotiated the Merger Agreement and evaluated whether the Merger is in the best interests of the Company s Unaffiliated Stockholders (the stockholders other than Chiesi and its subsidiaries). The members of the Special Committee were aware of the differing interests of the directors and executive officers that are summarized above and considered them, along with other factors, in evaluating and negotiating the Merger Agreement and the Merger and in recommending to the stockholders that the Merger Agreement be adopted. Our Board also was aware of and took into account these differing interests when it determined to accept the Special Committee s recommendation that it approve and declare advisable the Merger Agreement and the Merger. See &