

CORNERSTONE THERAPEUTICS INC  
Form DEF 14A  
April 23, 2012  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**SCHEDULE 14A**

**(Rule 14a-101)**

**INFORMATION REQUIRED IN PROXY STATEMENT**

**SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a) of the Securities**

**Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

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

**CORNERSTONE THERAPEUTICS INC.**

(Name of Registrant as Specified In Its Charter)

Not Applicable

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

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Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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

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

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

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(1) Amount previously paid:

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

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(4) Date Filed:

Table of Contents

**CORNERSTONE THERAPEUTICS INC.**

**1255 CRESCENT GREEN DRIVE, SUITE 250**

**CARY, NORTH CAROLINA 27518**

**April 25, 2012**

Dear Fellow Stockholders:

I am pleased to invite you to join us for the Cornerstone Therapeutics Inc. 2012 Annual Meeting of Stockholders to be held on May 22, 2012 at 8:30 a.m., local time, at our offices at 1255 Crescent Green Drive, Suite 250, Cary, NC 27518. Details about the meeting, the nominees for the Board of Directors and other matters to be acted on are presented in the Notice of 2012 Annual Meeting of Stockholders and Proxy Statement that follow.

In addition to annual meeting formalities, we will report to stockholders generally on Cornerstone Therapeutics Inc.'s business, and will be pleased to answer stockholders' questions relating to Cornerstone Therapeutics.

We hope you plan to attend the Annual Meeting. Please exercise your right to vote by signing, dating and returning the enclosed proxy card as described in the Proxy Statement, even if you plan to attend the meeting. You may also vote by proxy over the Internet.

On behalf of Cornerstone Therapeutics' Board of Directors and management, it is my pleasure to express our appreciation for your continued support.

Yours sincerely,

Craig A. Collard

*Chief Executive Officer*

**YOUR VOTE IS IMPORTANT**

**PLEASE TAKE TIME TO VOTE AS SOON AS POSSIBLE. BY DOING SO, YOU MAY SAVE**

**CORNERSTONE THERAPEUTICS THE EXPENSE OF ADDITIONAL SOLICITATION.**

Table of Contents

**CORNERSTONE THERAPEUTICS INC.**

**1255 CRESCENT GREEN DRIVE, SUITE 250**

**CARY, NORTH CAROLINA 27518**

**NOTICE OF 2012 ANNUAL MEETING OF STOCKHOLDERS**

**To Be Held on May 22, 2012**

To our stockholders:

NOTICE IS HEREBY GIVEN that the 2012 Annual Meeting of Stockholders of Cornerstone Therapeutics Inc. will be held on May 22, 2012 at 8:30 a.m., local time, at our offices at 1255 Crescent Green Drive, Suite 250, Cary, NC 27518. The purposes of the annual meeting are:

1. To elect the nine (9) nominees described in the Proxy Statement to our Board of Directors to serve as directors until the sooner of the election and qualification of their successors or the next Annual Meeting of our Stockholders.
2. To ratify the selection by the Audit Committee of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2012.

Stockholders also will consider and vote on any other matters as may properly come before the annual meeting or any adjournment thereof. Our Board of Directors has no knowledge of any other matters which may come before the meeting.

Stockholders of record on March 30, 2012 are entitled to notice of, and to vote at, the annual meeting or any adjournment thereof. Your vote is important regardless of the number of shares you own. Our stock transfer books will remain open for the purchase and sale of our common stock.

We hope that all stockholders will be able to attend the annual meeting in person. However, in order to ensure that a quorum is present at the meeting, please complete, date, sign and promptly return the enclosed proxy card whether or not you expect to attend the annual meeting. A postage-paid envelope, addressed to First Shareholder Services, our transfer agent and registrar, has been enclosed for your convenience. You may also vote by proxy over the Internet. If you attend the meeting, your proxy will, upon your written request, be returned to you and you may vote your shares in person.

All stockholders are cordially invited to attend the meeting.

By order of the Board of Directors,

Andrew K. W. Powell, Esq.

*Secretary*

Cary, North Carolina

April 25, 2012

**WHETHER OR NOT YOU EXPECT TO ATTEND THE MEETING, YOUR VOTE IS IMPORTANT. IN ORDER TO ASSURE THE REPRESENTATION OF YOUR SHARES AT THE ANNUAL MEETING, PLEASE VOTE AS SOON AS POSSIBLE OVER THE INTERNET OR BY MAIL.**

**Table of Contents**

**CORNERSTONE THERAPEUTICS INC.**

**PROXY STATEMENT**

**For the 2012 Annual Meeting of Stockholders**

**To Be Held on May 22, 2012**

**Table of Contents**

<u>INFORMATION CONCERNING SOLICITATION AND VOTING</u>	1
<u>Voting Securities and Votes Required</u>	1
<u>Householding of Annual Meeting Materials</u>	2
<u>CHIESI TRANSACTION</u>	3
<u>PROPOSAL ONE ELECTION OF DIRECTORS</u>	4
<u>Board Recommendation</u>	4
<u>Director Nominees</u>	4
<u>CORPORATE GOVERNANCE</u>	8
<u>General</u>	8
<u>Controlled Company Exemption under NASDAQ Marketplace Rules</u>	8
<u>Board Determination of Independence</u>	8
<u>Board Leadership Structure</u>	8
<u>Board Oversight and Risk Management</u>	8
<u>Board Meetings and Attendance</u>	9
<u>Board Committees</u>	9
<u>Executive and Director Compensation Process</u>	11
<u>Director Nomination Process</u>	12
<u>Communicating with the Independent Directors</u>	13
<u>Pre-Approval Policy and Procedures</u>	13
<u>Related Person Transactions</u>	13
<u>Policies and Procedures Regarding Review, Approval or Ratification of Related Person Transactions</u>	14
<u>PROPOSAL TWO RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u>	15
<u>Board Recommendation</u>	15
<u>Audit Committee Report</u>	15
<u>Independent Registered Public Accounting Firm's Fees</u>	17
<u>STOCK OWNERSHIP INFORMATION</u>	18
<u>Section 16(a) Beneficial Ownership Reporting Compliance</u>	19
<u>INFORMATION ABOUT EXECUTIVE AND DIRECTOR COMPENSATION</u>	20
<u>Compensation Discussion and Analysis</u>	20
<u>Compensation Committee Report</u>	33
<u>Compensation Program Risk Assessment</u>	33
<u>Summary Compensation Table</u>	34
<u>Grants of Plan-Based Awards in Fiscal 2011</u>	35
<u>Outstanding Equity Awards at Fiscal Year-End 2011</u>	35
<u>Option Exercises and Stock Vested in Fiscal 2011</u>	37
<u>Potential Payments Upon Termination and Change in Control</u>	37
<u>Director Compensation for Fiscal 2011</u>	41
<u>Equity Compensation Plan Information</u>	43
<u>Compensation Committee Interlocks and Insider Participation</u>	43
<u>OTHER MATTERS</u>	43
<u>SOLICITATION OF PROXIES</u>	43

<u>REVOCATION OF PROXY</u>	43
<u>STOCKHOLDER PROPOSALS</u>	44
<u>DIRECTIONS TO OUR ANNUAL MEETING AT OUR OFFICES</u>	44



**Table of Contents**

**CORNERSTONE THERAPEUTICS INC.**

**1255 CRESCENT GREEN DRIVE, SUITE 250**

**CARY, NORTH CAROLINA 27518**

**PROXY STATEMENT**

**For the 2012 Annual Meeting of Stockholders**

**To Be Held on May 22, 2012**

**INFORMATION CONCERNING SOLICITATION AND VOTING**

This proxy statement and the enclosed proxy card are being furnished in connection with the solicitation of proxies by the Board of Directors of Cornerstone Therapeutics Inc. for use at the 2012 Annual Meeting of Stockholders to be held on May 22, 2012 at 8:30 a.m., local time, at our offices at 1255 Crescent Green Drive, Suite 250, Cary, NC 27518, and any adjournment thereof.

All proxies will be voted in accordance with your instructions. If no choice is specified, the proxies will be voted in favor of the matters set forth in the accompanying Notice of Meeting. Any proxy may be revoked by a stockholder at any time before it is exercised by attending the meeting and voting in person, delivering written notice of revocation of your proxy to our Secretary at any time before voting is closed or timely submitting another signed proxy card bearing a later date or new voting instructions over the Internet as described below.

Our Annual Report to Stockholders for the fiscal year ended December 31, 2011 is being mailed to stockholders with the mailing of these proxy materials on or about April 25, 2012.

**Important Notice Regarding the Availability of Proxy Materials**

**For the Stockholder Meeting to Be Held on May 22, 2012**

**The annual report and proxy statement will also be available on the Internet at**

**[www.proxydocs.com/crtx](http://www.proxydocs.com/crtx)**

**A copy of our Annual Report on Form 10-K for the fiscal year ended December 31, 2011 as filed with the Securities and Exchange Commission, or SEC, except for exhibits, will be furnished without charge to any stockholder upon written or oral request to Cornerstone Therapeutics Inc., Attention of Andrew K. W. Powell, Executive Vice President, General Counsel, and Secretary, 1255 Crescent Green Drive, Suite 250, Cary, North Carolina 27518; telephone: (888) 466-6505.**

**Voting Securities and Votes Required**

Stockholders of record on March 30, 2012 will be entitled to notice of and to vote at the annual meeting. On that date, 26,043,294 shares of our common stock were issued, outstanding and entitled to vote. Each share of common stock entitles the holder to one vote with respect to all matters submitted to stockholders at the meeting. We have no other securities entitled to vote at the meeting.

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The representation in person or by proxy of at least a majority of the shares of common stock issued, outstanding and entitled to vote at the annual meeting is necessary to establish a quorum for the transaction of business. If a quorum is not present, the meeting will be adjourned until a quorum is obtained.

Directors are elected by a plurality of votes cast by stockholders entitled to vote at the meeting. The ratification of Ernst & Young LLP as our independent registered public accounting firm requires the affirmative vote of the majority of shares present in person or represented by proxy and voting on such matter at the annual meeting. The votes will be counted, tabulated and certified by a representative of First Shareholder Services, who will serve as the inspector of elections at the annual meeting.

Shares which abstain from voting as to a particular matter, and shares held in street name by banks, brokers or other nominees who indicate on their proxy cards that they do not have discretionary authority to vote

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## **Table of Contents**

such shares as to a particular matter, which we refer to as broker non-votes, will be counted for the purpose of determining whether a quorum exists but will not have any effect upon the outcome of voting with respect to any matters voted on at the annual meeting.

Stockholders may vote in person or by proxy. Voting by proxy will not in any way affect a stockholder's right to attend the meeting and vote in person. Any stockholder voting by proxy has the right to revoke the proxy at any time before the polls close at the annual meeting by attending the meeting and voting in person, delivering written notice of revocation of your proxy to our Secretary at any time before voting is closed, timely submitting another signed proxy card bearing a later date or timely submitting new voting instructions over the Internet as described below. The shares represented by all properly executed proxies received in time for the meeting or voted by proxy over the Internet will be voted as specified. If the shares you own are held in your name and you do not specify in the proxy card how your shares are to be voted, they will be voted in favor of the election as directors of those persons named as nominees in this proxy statement and in favor of the ratification of Ernst & Young LLP as our independent registered public accounting firm. If any other matters properly come before the meeting, the persons named in the accompanying proxy will vote the shares represented by such proxy on such matters as determined by a majority of our Board of Directors. If the shares you own are held in street name, the bank, broker or other nominee, as the record holder of your shares, is required to vote your shares in accordance with your instructions. In order to vote your shares held in street name, you will need to follow the directions your bank, broker or other nominee provides you.

### **If your shares are registered directly in your name, you may vote:**

**Over the Internet.** Go to the web site of our tabulator, First Shareholder Services, at <https://www.shareholderlink.com/fss/crtx/pxsignon.asp> and follow the instructions you will find there. You must specify how you want your shares voted or your Internet vote cannot be completed and you will receive an error message. Your shares will be voted according to your instructions.

**By Mail.** Complete, date and sign the enclosed proxy card and mail it in the enclosed postage-paid envelope to First Shareholder Services. Your proxy will be voted according to your instructions. If you do not specify how you want your shares voted, they will be voted as recommended by our Board of Directors.

**In Person at the Meeting.** If you attend the meeting, you may deliver your completed proxy card in person or you may vote by completing a ballot, which will be available at the meeting.

### **If your shares are held in street name for your account by a bank, broker or other nominee, you may vote:**

**Over the Internet.** You will receive instructions from your broker or other nominee if you are permitted to vote over the Internet.

**By Mail.** You will receive instructions from your broker or other nominee explaining how to vote your shares.

**In Person at the Meeting.** Contact the broker or other nominee that holds your shares to obtain a broker's proxy card and bring it with you to the meeting. **A broker's proxy is not the form of proxy enclosed with this proxy statement. You will not be able to vote shares you hold in street name at the meeting unless you have a proxy from your broker issued in your name giving you the right to vote the shares.**

### **Householding of Annual Meeting Materials**

Some banks, brokers and other nominee record holders may be participating in the practice of householding proxy statements and annual reports. This means that only one copy of our proxy statement and Annual Report to Stockholders may have been sent to multiple stockholders in your household. We will promptly deliver a separate copy of either document to you upon written or oral request to Cornerstone Therapeutics Inc., Attention of Andrew K. W. Powell, Executive Vice President, General Counsel, and Secretary, 1255 Crescent Green Drive, Suite 250, Cary, North Carolina 27518; telephone: (888) 466-6505. If you want to receive separate copies of the proxy statement or Annual Report to Stockholders in the future, or if you are receiving multiple copies and would like to receive only one copy per household, you should contact

your bank, broker or other nominee record holder, or you may contact us at the above address and phone number.

**Table of Contents**

**CHIESI TRANSACTION**

On May 6, 2009, we and certain of our stockholders entered into a series of transactions and agreements with Chiesi Farmaceutici S.p.A, or Chiesi, which we refer to as the Chiesi Transaction. These agreements include (i) a stock purchase agreement between us and Chiesi; (ii) a separate stock purchase agreement among Chiesi, Cornerstone Biopharma Holdings, Ltd., an entity controlled by Craig A. Collard, our Chief Executive Officer, and the Lutz Family Limited Partnership, an entity controlled by Steven M. Lutz, our former Executive Vice President, Manufacturing and Trade, which we refer to as the Selling Stockholder Stock Purchase Agreement ; (iii) a governance agreement, which expired on July 28, 2011, among us, Chiesi and, with respect to certain sections, certain of our stockholders, which we refer to as the Governance Agreement ; (iv) a license and distribution agreement between us and Chiesi, which we refer to as the U.S. CUROSURIA Agreement ; and (v) a stockholders agreement, as subsequently amended, among Chiesi, Mr. Collard, Mr. Lutz, Cornerstone Biopharma Holdings, Ltd., the Lutz Family Limited Partnership and Carolina Pharmaceuticals Ltd., or Carolina Pharmaceuticals, an entity controlled by Mr. Collard, which we refer to as the Stockholders Agreement.

In connection with the closing of the Chiesi Transaction, the Governance Agreement became effective, and our Board of Directors approved the amendment and restatement of our bylaws pursuant to its provisions. Among other things, the Governance Agreement (i) contained certain governance provisions related to the structure and composition of our Board of Directors, including reconstituting our Board of Directors to consist of two classes of directors; (ii) provided Chiesi with certain majority stockholder rights that were incorporated in our certificate of incorporation and bylaws; (iii) required us to take or cause to be taken all lawful action necessary to ensure that our certificate of incorporation and bylaws were not at any time inconsistent with the Governance Agreement s provisions; (iv) imposed certain restrictions on Chiesi, including restrictions on its purchases and transfers of our common stock; and (v) required Chiesi, Mr. Collard, Mr. Lutz and the entities controlled by them to vote their shares in favor of the directors nominated for election in accordance with the Governance Agreement and otherwise in a manner consistent with the Governance Agreement. The provisions of the Governance Agreement were effective through July 28, 2011 (two years following the closing of the Chiesi Transaction).

Also in connection with the closing of the Chiesi Transaction, the Stockholders Agreement became effective. Among other things, the Stockholders Agreement generally required Mr. Collard, Mr. Lutz and the entities controlled by them to refrain, through July 28, 2011, from purchasing and transferring our common stock beneficially owned by them except in accordance with the agreement. The Stockholders Agreement continues to require Mr. Collard to vote in favor of a transaction whereby Chiesi or its affiliates would acquire all of our outstanding common stock.

Although the Governance Agreement has expired, our certificate of incorporation still provides that, so long as Chiesi beneficially owns (together with its affiliates) not less than 40% of our outstanding 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.

**Table of Contents**

**PROPOSAL ONE ELECTION OF DIRECTORS**

At the 2012 annual meeting, stockholders will have an opportunity to vote for all the director nominees. The persons named in the enclosed proxy card will vote to elect these nominees as directors, unless you withhold authority to vote for the election of a nominee by marking the proxy card to that effect. The nominees have indicated their willingness to serve, if elected. However, if a nominee should be unable or unwilling to serve, the proxies may be voted for a substitute nominee designated by our Board of Directors, or our Board of Directors may reduce the number of directors to be elected at the 2012 annual meeting.

**Board Recommendation**

**The Board of Directors recommends a vote FOR the election of the director nominees.**

The following paragraphs provide information as of the date of this proxy statement about our director nominees. The information presented includes information about each such director, including, among other things, his age; all positions and offices he holds with us; length of service as a director; principal occupation and employment for the past five years; the names of other public companies of which he has served as a director at any time during the past five years; and the specific experience, qualifications, attributes and skills that led to the conclusion that the director nominee should serve as one of our directors. For information about the number of shares of common stock beneficially owned by our directors as of April 5, 2012, see Stock Ownership Information.

No director, director nominee or executive officer is related by blood, marriage or adoption to any director, director nominee or executive officer. No arrangements or understandings exist between any director or person nominated for election as a director and any other person pursuant to which such person is to be selected as a director or nominee for election as a director. For more information regarding the director nomination process, see Corporate Governance Director Nomination Process.

**Director Nominees**

*Craig A. Collard, age 46, became a director in 2008.*

*Craig A. Collard* has served as our Chief Executive Officer and the chairman of our Board of Directors since our merger with Cornerstone BioPharma Holdings, Inc., or Cornerstone BioPharma, in October 2008. We refer to this transaction as the Merger. Mr. Collard also served as our Interim Chief Financial Officer from July 2010 through January 2011 and our President from October 2008 to September 2011. In March 2004, Mr. Collard founded Cornerstone Biopharma Holdings, Ltd. (the assets and operations of which were restructured as Cornerstone BioPharma in May 2005), and served as its President and Chief Executive Officer and a director from March 2004 to October 2008. Before founding Cornerstone BioPharma, Mr. Collard's principal occupation was serving as President and Chief Executive Officer of Carolina Pharmaceuticals, Inc., a specialty pharmaceutical company he founded in May 2003. From August 2002 to February 2003, Mr. Collard served as Vice President of Sales for Verum Pharmaceuticals, Inc., a specialty pharmaceutical company in Research Triangle Park, North Carolina. From 1998 to 2002, Mr. Collard worked as Director of National Accounts at DJ Pharma, Inc., a specialty pharmaceutical company which was eventually purchased by Biovail Pharmaceuticals, Inc., or Biovail. His pharmaceutical career began in 1992 as a field sales representative at Dura Pharmaceuticals, Inc., or Dura. He was later promoted to several other sales and marketing positions within Dura. Mr. Collard is a member of the Board of Directors of Hilltop Home Foundation, a Raleigh, North Carolina, non-profit corporation as well as the Triangle Chapter of the Cystic Fibrosis Foundation in addition to our Board of Directors. Mr. Collard holds a B.S. in Engineering from the Southern College of Technology (now Southern Polytechnic State University) in Marietta, Georgia. As our founder and Chief Executive Officer, and as a former sales representative and/or executive at several other specialty pharmaceutical companies, Mr. Collard brings to our management team and Board of Directors a depth of sales and executive experience both in the specialty pharmaceutical industry in general and at our company in particular.

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**Table of Contents*****Alessandro Chiesi, age 45, became a director in 2009.***

*Alessandro Chiesi* has served on our Board of Directors since the closing of the Chiesi Transaction in July 2009. Mr. Chiesi has been employed by Chiesi, a research, development, production and sales pharmaceutical company, holding various positions. Since September 2010, he has served as Head of the International Division. From May 2005 to September 2010, he served as the Affiliates Coordinator of the International Division. From May 2002 through November 2004, he was the Managing Director of Asche-Chiesi GmbH. Between 1995 and 2002, he held positions including assistant to the CEO and project leader for various mergers and acquisitions. Mr. Chiesi has served on the Boards of Directors of the following companies: Master Pharma S.r.l. since July 1990, Chiesi Hellas Pharmaceuticals S.A. since April 1998, Chiesi S.A. since September 1999, Promedica S.r.l. since May 2001, Chiesi Farmaceutici, S.p.A. since January 2004, Valline S.r.l. since May 2004, Chiesi Pharmaceuticals B.V. since February 2007 and DOC Generici S.r.l. since November 2008. He brings to our Board of Directors a depth of experience in global business development, strategic business planning and risk assessment and the integration and management of transnational joint ventures.

***Christopher Codeanne, age 44, became a director in 2008.***

*Christopher Codeanne* has served on our Board of Directors since the consummation of the Merger in October 2008. Since December 2010, Mr. Codeanne has served as the Executive Vice President, Finance, Chief Financial Officer and Director of Premier Research Group Limited, an international pharmaceutical and medical device services company. From April 2008 through November 2010, Mr. Codeanne served as Chief Operating Officer and Chief Financial Officer of Oncology Development Partners, LLC (d/b/a Oncopartners), a specialized international oncology contract research organization. During 2010, Mr. Codeanne also served as an advisor for private equity firm Warburg Pincus. From December 2006 through April 2008, Mr. Codeanne served as the Chief Financial Officer of Averion International Corp., or Averion, a publicly traded international contract research organization. Prior to Averion, from 2002 through July 2006, Mr. Codeanne was the Chief Financial Officer of SCIREX Corporation (which was acquired by Premier Research Group plc in 2006), or SCIREX, an international, full-service clinical research organization. From 1999 to 2002, Mr. Codeanne served as Director of Finance of SCIREX. Mr. Codeanne is a member of the American Institute of Certified Public Accountants. Mr. Codeanne holds a B.A. in Accounting from Fairfield University and an MBA from the University of Connecticut. He brings to our Board of Directors a depth of experience in financial, operational and public company matters and knowledge regarding pharmaceutical development and working with contract research organizations.

***Michael Enright, age 50, became a director in 2008.***

*Michael Enright* has served on our Board of Directors since the consummation of the Merger in October 2008. Since February 2011, Mr. Enright has served as the President of OckhamCRO, a division of Ockham Development Group Inc., or Ockham, a global contract research organization. Prior to becoming President of OckhamCRO, Mr. Enright had served as the Chief Financial Officer for Ockham since its merger with Atlantic Search Group, Inc., a staff augmentation and functional outsourcing services organization serving pharmaceutical companies and contract research organizations in the United States and India, where he held the same position since 1995. Prior to 1995, Mr. Enright held positions in employee benefits administration with Hauser Insurance Group and The Prudential Insurance Company, and in financial management with General Electric Company's aerospace business group. Mr. Enright holds a B.A. in Finance from Villanova University and an MBA from the Kenan-Flagler School of Business of the University of North Carolina at Chapel Hill. He brings to our Board of Directors a depth of experience in strategic planning and organizational development and human resources.

***Anton Giorgio Failla, age 47, became a director in 2009.***

*Anton Giorgio Failla* has served on our Board of Directors since the closing of the Chiesi Transaction in July 2009. Since July 2008, Dr. Failla has served as Head of Business Development of Chiesi. Prior to his employment at Chiesi, from 2004 to 2008, Dr. Failla served as the CFO of Sorin Group, a medical device company, based in Milan, Italy and as its Senior Vice President of Operations based in Denver, Colorado. From

**Table of Contents**

2000 to 2004, Dr. Failla served as Vice President, Business Development and Strategic Planning at Novartis Consumer Health, or Novartis, at its Headquarters in Switzerland. Prior to Novartis, Dr. Failla held various positions in business development at Medtronic Inc., both in the U.S. and in Europe. Dr. Failla has served on the boards of directors of several private companies in Europe and the United States: Bellco S.r.l. (April 2004-January 2007), Sorin Biomedica Cardio S.r.l. (April 2004-April 2005), Biofin Holding International N.V. (July 2004 -June 2006), Ela Medical S.a.s. (April 2004-June 2006), Sorin Biomedica CRM S.r.l. (April 2007-July 2008), Sorin Group International S.A. (December 2005-June 2006), Casino Municipale Campione d Italia (August 2007-June 2009), and Phenomix Corporation Inc. (February 2010-September 2010). Dr. Failla holds a Master in Business Administration from SDA Bocconi and a doctorate in Electronic Engineering from Polytechnic of Turin. He brings to our Board of Directors a depth of experience in the areas of strategic planning, finance, business development and operations management.

***James Harper, age 64, became a director in 2011.***

*James Harper* has served on our Board of Directors since December 2011. Mr. Harper has over 30 years of experience in the pharmaceutical and medical device industries. He has also served on multiple corporate and not-for-profit boards of directors. He is currently Chair of Phenomix Corporation (Chair December 2009-present and director July 2007-present), and an advisor to Nomura Phase4 Ventures (July 2007-present). Prior to his retirement, Mr. Harper held a number of management and senior executive positions at Eli Lilly (January 1974-April 2004), including Group Vice President of Global Marketing and Sales and Chief Marketing Officer (January 2001-April 2004), President of Diabetes and Growth Disorders Product Group (January 1994-January 2001), and President and CEO of Advanced Cardiovascular Systems, a Lilly subsidiary (December 1990-December 1992). In addition, Mr. Harper has served on the boards of directors of Anesiva, Inc. (May 2007-December 2008), Corcept Therapeutics (October 2004-May 2011), Inveon Corporation (June 2002-April 2004) and Zymogenetics, Inc (July 2004-October 2010). On these boards, he served on various committees including compensation, governance, and audit committees. Mr. Harper was a member of the National Board of Directors of the American Diabetes Association (July 1993-June 1997), where he was a member of the Research Policy Committee (July 2000-June 2001) and Vice Chair of the Research Foundation Board (2003-2006). He also served on the National Osteoporosis Foundation Corporate Advisory Board (July 1995-June 1997). Mr. Harper is a member of the National Association of Corporate Directors (March 2006-present). A veteran Navy flight officer, he holds a B.A. in Biology from Vanderbilt University and an MBA in Marketing/Finance from The Wharton School. He brings to our Board of Directors a depth of operational experience.

***Michael Heffernan, age 47, became a director in 2008.***

*Michael Heffernan* has served on our Board of Directors since the consummation of the Merger in October 2008. Since 2002, Mr. Heffernan has served as President and Chief Executive Officer of Collegium Pharmaceutical, Inc., a specialty pharmaceutical company that develops and commercializes products to treat central nervous system, respiratory and skin-related disorders. From 1999 to 2001, Mr. Heffernan served as President and Chief Executive Officer of PhyMatrix Corp., an integrated health care services company. From 1995 to 1999, Mr. Heffernan served as President and Chief Executive Officer of Clinical Studies Ltd., a pharmaceutical clinical development company. From 1987 to 1994, Mr. Heffernan served in a variety of sales and marketing positions with Eli Lilly and Company, a pharmaceutical company. Mr. Heffernan has also served on the Board of Directors of TyRx Pharma, Inc. since 2002, the Board of Directors of PreCision Dermatology, Inc. since 2010 and the Board of Directors of Advanced Cell Technology, Inc. since April 2012. Mr. Heffernan holds a B.S. in Pharmacy from the University of Connecticut and is a Registered Pharmacist. He brings to our Board of Directors a depth of experience in sales, marketing, and licensing and knowledge regarding pharmaceutical development and working with contract research organizations.

***Robert M. Stephan, age 69, became a director in 2009.***

*Robert M. Stephan* has served on our Board of Directors since the closing of the Chiesi Transaction in July 2009. Mr. Stephan is an experienced business attorney currently in private practice in New Canaan, Connecticut.



## **Table of Contents**

With over 40 years experience, Mr. Stephan concentrates his law practice on domestic and international business transactions and serves as chief counsel to small and mid-sized companies and local counsel to foreign companies with operations in the United States. Mr. Stephan has served as Vice President and Secretary since 1997 and as a director since April 2009, of Chiesi Pharmaceuticals Inc., USA, a subsidiary of Chiesi. Prior to opening his private practice in 1997 and after initial training with the Office of the General Counsel of the SEC in Washington D.C. and the law firm of Day, Berry & Howard in Hartford, Connecticut, Mr. Stephan embarked on a career as in-house counsel with publicly traded corporations. He served as Vice President and Group General Counsel for General Mills Inc; Vice President and Associate General Counsel for US Surgical Corporation; Vice President, General Counsel and Secretary for Erbamont N.V. (Montedison Group); and Vice President, General Counsel and Secretary for American Maize Products Corporation. Mr. Stephan has advised boards of directors on corporate governance matters and is a former member of the National Association of Corporate Directors. Mr. Stephan is a former Captain/Judge Advocate in the United States Marine Corps and an Assistant Attorney General for the State of Wisconsin. Mr. Stephan holds a Bachelor of Arts in economics and political science from Lawrence University and a Juris Doctor from the University of Wisconsin Law School. He brings to our Board of Directors a depth of experience in all areas of corporate governance, with particular emphasis on the governance of transnational joint ventures.

### ***Marco Vecchia, age 52, became a director in 2010.***

*Marco Vecchia* has served on our Board of Directors since May 2010. Since 1987, Mr. Vecchia has served as Head of Legal and Corporate Affairs at Chiesi. Mr. Vecchia holds a degree in law from the University of Parma. Mr. Vecchia has also served on the boards of directors of the following companies: Chiesi S.A., Belgium, since June 2010; Chiesi Pharmaceuticals Shanghai Co. Ltd. (Wfoe), China, since June 2008; Cheshire Healthcare Limited, England, since January 2003; Chiesi Limited, England, since May 1999; Chiesi Healthcare Limited, England, since May 1999; Chiesi S.A., France, since April 2002; Chiesi Hellas Pharmaceuticals S.A., Greece, since April 1998; Chiesi Int. H. B.V., Holland, since April 2008; Chiesi Pharmaceuticals B.V., Holland, since February 2007; Opocrin S.P.A., Italy, since November 2008; Opocrin S.r.l., Italy, since November 2008; Novadynamics Healthcare S.r.l., Italy, since May 2007; Chiesi Pharmaceuticals Pvt Limited, Pakistan, since November 2001; Chiesi España S.A., Spain, since April 2000; Chiesi Pharmaceuticals Inc., USA, since April 1992. He brings to our Board of Directors a depth of experience in the areas of mergers and acquisitions and transnational joint ventures, pharmaceutical IP licensing, risk management and corporate governance.

## **Table of Contents**

### **CORPORATE GOVERNANCE**

#### **General**

Our management and Board of Directors believe that good corporate governance is important to ensure that we are managed for the long-term benefit of our stockholders. This section describes key corporate governance practices that we have adopted.

#### **Controlled Company Exemption under NASDAQ Marketplace Rules**

We are a controlled company within the meaning of applicable rules of The NASDAQ Stock Market LLC, or NASDAQ, because more than 50% of our voting power is held by Chiesi. Therefore, we are not subject to the NASDAQ listing requirements that would otherwise require us to have (i) a Board of Directors comprised of a majority of independent directors; (ii) compensation of our executive officers determined, or recommended to our board for determination, by a majority of our independent directors or a compensation committee comprised solely of independent directors; and (iii) director nominees selected, or recommended for our board's selection, either by a majority of our independent directors or a nominating committee comprised solely of independent directors. Nevertheless, as discussed below, we have established the Compensation Committee to approve executive officer compensation and the Nominating and Corporate Governance Committee to select director nominees, each of which is comprised solely of independent directors.

#### **Board Determination of Independence**

Under applicable NASDAQ rules, a director will only qualify as an independent director if, in the opinion of our Board of Directors, 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 us would preclude them from being considered independent. Our Board of Directors has determined that each of the following current members of our Board of Directors is an independent director as defined under applicable NASDAQ rules, including that each such director is free of any relationship that would interfere with the exercise of his independent judgment in carrying out his responsibilities as a director: Mr. Codeanne, Mr. Enright, Mr. Harper, Mr. Heffernan and Mr. Stephan. In reaching the determination with respect to Mr. Stephan, the Board of Directors considered Mr. Stephan's representation of Chiesi in various matters unrelated to the Chiesi Transaction, the fees he receives from Chiesi under consulting and/or retainer arrangements, and his non-employee Vice President, Secretary and director positions at Chiesi Pharmaceuticals Inc., USA, a subsidiary of Chiesi.

#### **Board Leadership Structure**

Our Chief Executive Officer, Craig A. Collard, is also the chairman of our Board of Directors. Our Board of Directors has determined this leadership structure is the most effective way to ensure that it remains focused on the key issues affecting our company. Mr. Collard founded Cornerstone BioPharma, has been our chairman and Chief Executive Officer since the Merger and oversaw our entry into the Chiesi Transaction. Although we do not have a lead independent director, our Board of Directors which consists primarily of either independent directors or directors designated by Chiesi exercises a strong, independent oversight function. This oversight function is enhanced by the fact that each of our board committees is comprised of directors with significant experience in the pharmaceutical industry and our Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee are each comprised entirely of independent directors.

#### **Board Oversight and Risk Management**

Our Board of Directors has responsibility for establishing broad corporate policies and reviewing our overall performance rather than day-to-day operations. The primary responsibility of our Board of Directors is to oversee our management and, in doing so, assess and manage the risks inherent in our business in order to serve our best interests and the best interests of our stockholders. The Board of Directors selects, evaluates and provides for the succession of executive officers and, subject to stockholder election, directors. It reviews and approves corporate

## **Table of Contents**

objectives and strategies, and assesses the risks presented by those strategies and the manner in which management intends to mitigate those risks. In the exercise of its risk oversight function, our Board of Directors solicits and reviews regular updates from key members of management about significant policies and proposed major commitments of corporate resources. Our Board of Directors also participates in decisions that have a potential major economic impact on us. In addition to making reports and presentations at Board of Directors and committee meetings, our management keeps the directors informed of our activity through regular communication. While each of our standing board committees is responsible for assessing risks within its respective area of responsibility and for making appropriate risk management recommendations to our Board of Directors, our full board is principally responsible for evaluating business risks and determining whether any risk mitigation measures should be implemented.

### **Board Meetings and Attendance**

Our Board of Directors met eight times during the fiscal year ended December 31, 2011, either in person or by teleconference. During 2011, each of our current directors attended at least 75% of the aggregate of the total number of board meetings held during the period each has been a director and the total number of meetings held by all committees on which each director then served.

We have no formal policy requiring director attendance at the annual meeting of stockholders, although all directors are expected to attend the annual meeting if they are able to do so. One of our directors attended the 2011 annual meeting.

### **Board Committees**

Our Board of Directors has established four standing committees: the Audit Committee, the Compensation Committee, the Nominating and Corporate Governance Committee and the Investment Committee. The members of each committee are appointed by our Board of Directors, upon the recommendation of the Nominating and Corporate Governance Committee, and serve one-year terms. Each of these committees operates under a charter that has been approved by the Board of Directors. With the exception of the Investment Committee, whose charter is still in the process of being finalized, we have posted current copies of each committee's charter on the Corporate Governance section of our website, which can be found at [www.crtx.com](http://www.crtx.com).

The Board of Directors has determined that all of the members of each of the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee are independent as defined under NASDAQ rules and, in the case of all members of the Audit Committee, that they meet the additional independence requirements of Rule 10A-3 under the Securities Exchange Act of 1934, as amended (the Exchange Act).

#### ***Audit Committee***

The Audit Committee's responsibilities include:

appointing, approving the compensation of and assessing the independence of our registered public accounting firm;

overseeing the work of our independent registered public accounting firm, including through the receipt and consideration of reports from the independent registered public accounting firm;

reviewing and discussing with management and the independent registered public accounting firm our annual and quarterly financial statements and related disclosures;

monitoring our internal control over financial reporting, disclosure controls and procedures and code of business conduct and ethics;

establishing policies regarding hiring employees from the independent registered public accounting firm and procedures for the receipt and retention of accounting-related complaints and concerns;



## **Table of Contents**

meeting independently with our independent registered public accounting firm and management to discuss our financial statements, and other financial reporting and audit matters;

preparing the audit committee report required by SEC rules; and

reviewing and approving or ratifying related person transactions.

The members of the Audit Committee are Mr. Codeanne, Mr. Enright and Mr. Heffernan. Mr. Codeanne serves as chair of the Audit Committee. The Board of Directors has determined that Mr. Codeanne is an audit committee financial expert as defined by applicable SEC rules. The Audit Committee met 13 times in 2011.

### ***Compensation Committee***

The Compensation Committee's responsibilities include:

reviewing and approving the compensation of our executive officers, with such approval subject to ratification by the full Board of Directors;

overseeing the evaluation of our senior executives;

reviewing and making recommendations to the Board of Directors regarding incentive compensation and equity-based plans;

administering our stock incentive plans;

reviewing and discussing with management the Compensation Discussion and Analysis, or CD&A, and recommending that the CD&A be included in our annual proxy statement on Schedule 14A;

preparing the compensation committee report required by SEC rules; and

reviewing and making recommendations to the Board of Directors regarding director compensation.

For information about the processes and procedures followed by the Compensation Committee in considering executive and director compensation, see Executive and Director Compensation Process.

The members of the Compensation Committee are Mr. Heffernan, Mr. Codeanne and Mr. Enright. Mr. Heffernan serves as chair of the Compensation Committee. The Compensation Committee met eight times in 2011.

### ***Nominating and Corporate Governance Committee***

The Nominating and Corporate Governance Committee's responsibilities include:

identifying individuals qualified to become board members;

recommending to the Board of Directors the persons to be nominated for election as directors and to each of the committees of the Board of Directors;

reviewing and making recommendations to the Board of Directors with respect to management succession planning;

developing and recommending to the Board of Directors corporate governance principles; and

overseeing periodic evaluation of the Board of Directors.

The members of the Nominating and Corporate Governance Committee are Mr. Enright, Mr. Codeanne and Mr. Stephan. Mr. Enright serves as chair of the Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee met four times in 2011.

## **Table of Contents**

### ***Investment Committee***

The Investment Committee's responsibilities include:

reviewing our acquisition and divestiture strategies, capital structure and potential debt and equity transactions, investment portfolio, capital expenditures budget and our banking and trading arrangements;

analyzing, evaluating and where necessary and appropriate, prioritizing opportunities involving various merger, acquisition, financing and licensing transactions; and

recommending action to the Board of Directors with respect to potential merger, acquisition, financing and licensing transactions.

The members of the Investment Committee are Mr. Harper, Mr. Heffernan and Mr. Failla. Mr. Harper serves as chair of the Investment Committee. The Investment Committee was established in January 2012 and held its first meeting in February 2012.

### **Executive and Director Compensation Process**

Our Compensation Committee is responsible for approving the compensation of our executive officers, subject to ratification by our Board of Directors. As part of this process, our Compensation Committee has implemented an annual performance review program for our executive officers. As part of that program, the committee considers actual corporate performance compared to our corporate goals and individual performance compared to individual goals, as well as various subjective performance criteria. Each executive officer's individual performance goals relate to our corporate goals.

Additionally, on a rolling basis, our Compensation Committee tracks progress towards our corporate and individual goals, assesses the continuing relevance of those goals, and may add to or revise those goals as necessary or appropriate based on emergent challenges and opportunities. Any change in our corporate goals is subject to adoption by the full Board of Directors.

Our Compensation Committee evaluates each executive officer against his individual goals. Evaluation begins with a written self-assessment, which is submitted to our Chief Executive Officer. Our Chief Executive Officer then prepares a written evaluation based on the executive officer's self-assessment, the Chief Executive Officer's own evaluation and input from other employees. This process leads to a recommendation by our Chief Executive Officer to the Compensation Committee for annual executive salary increases, annual stock option and restricted stock awards and bonuses, if any, for executive officers other than himself. The Compensation Committee then reviews our corporate performance, and in light of that review considers the recommendations of the Chief Executive Officer. Upon completion of this review and consideration, the committee may approve or amend, in its discretion, the recommended annual executive salary increases, annual stock option and restricted stock awards and bonuses, if any, for our executive officers. In the case of our Chief Executive Officer, his individual performance evaluation is conducted by the Compensation Committee, which then approves any annual salary increase, annual stock option and restricted stock award and bonus. For more information regarding this process, see [Information About Executive and Director Compensation Process for Determining Executive Compensation](#).

Our Compensation Committee periodically reviews and makes recommendations to the Board of Directors regarding director compensation. Currently, each of our non-employee directors is compensated pursuant to our compensation and reimbursement policy. For more information regarding this policy, see [Information About Executive and Director Compensation Director Compensation for Fiscal 2011](#).

Our Compensation Committee may delegate its authority to the chair of the committee to the extent it deems necessary to finalize matters as to which the committee has given its general approval.

Our Compensation Committee has the authority to retain compensation consultants and other outside advisors to assist in the evaluation of executive officer compensation. During 2011, our Compensation

## **Table of Contents**

Committee did not retain a compensation consultant to assist in setting executive compensation. However, for 2011, in order to improve its understanding of compensation practices at companies in the specialty pharmaceutical sector, the committee considered market data from a variety of sources, including the Radford Survey covering pharmaceutical and bio-technology companies having between 150 and 499 employees and between \$50 million and \$150 million in revenues. For more information regarding the role of compensation consultants and surveys, see [Information About Executive and Director Compensation](#) [Process for Determining Executive Compensation](#) [Role of Compensation Consultants and Surveys](#).

## **Director Nomination Process**

The Nominating and Corporate Governance Committee is responsible for identifying individuals qualified to become board members, consistent with criteria approved by the board, and recommending the persons to be nominated for election as directors, except where we are legally required by contract, bylaw or otherwise to provide third parties with the right to nominate directors. The process followed by the Nominating and Corporate Governance Committee to identify and evaluate director candidates includes requests to board members and others for recommendations, meetings from time to time to evaluate biographical information and background material relating to potential candidates and interviews of selected candidates by members of the committee and the board, with direct input from our Chief Executive Officer. From time to time, the Nominating and Corporate Governance Committee may retain the services of an executive search firm to help identify and evaluate potential director candidates but did not retain such services during the year ended December 31, 2011.

In considering whether to recommend any particular candidate for inclusion in the board's slate of recommended director nominees, the Nominating and Corporate Governance Committee applies certain criteria, including the candidate's reputation for integrity, honesty and adherence to high ethical standards, business acumen, experience and judgment, understanding of our business and industry, diligence, conflicts of interest or the appearance thereof, other directorships and their impact on the ability of the candidate to devote adequate time to service on our board and the ability to act in the interests of all stockholders. The committee does not assign specific weights to particular criteria, and no particular criterion is a prerequisite for any prospective nominee. Our Board of Directors has adopted guidelines that provide that nominees shall not be discriminated against on the basis of race, religion, national origin, sex, sexual orientation, disability or any other basis proscribed by law and require the Nominating and Corporate Governance Committee to consider the value of diversity on our board. The Nominating and Corporate Governance Committee implements and assesses the effectiveness of these guidelines and the board's commitment to diversity by considering these guidelines in our assessment of potential director nominees and the overall make-up of our Board of Directors. We believe that the backgrounds and qualifications of our directors, considered as a group, should provide a significant breadth of experience, knowledge and abilities that will assist our board in fulfilling its responsibilities.

Pursuant to our certificate of incorporation and our bylaws, the Nominating and Corporate Governance Committee selects and recommends the directors for nomination by our Board of Directors.

Stockholders may recommend individuals to the Nominating and Corporate Governance Committee for consideration as potential director candidates by submitting their names, together with appropriate biographical information and background materials and a statement as to whether the stockholder or group of stockholders making the recommendation has beneficially owned more than 5% of our common stock for at least a year as of the date such recommendation is made, to the Nominating and Corporate Governance Committee, c/o Corporate Secretary, Cornerstone Therapeutics Inc., 1255 Crescent Green Drive, Suite 250, Cary, North Carolina 27518. Assuming that appropriate biographical and background material has been provided on a timely basis, the Nominating and Corporate Governance Committee will evaluate stockholder recommended candidates by following substantially the same process, and applying substantially the same criteria, as it follows for candidates submitted by others. As described in [Stockholder Proposals](#) below, stockholders also have the right under Section 1.10 of our bylaws to directly nominate director candidates, without any action or recommendation on the part of the Nominating and Corporate Governance Committee or the board, by following the procedures set forth therein.



## **Table of Contents**

### **Communicating with the Independent Directors**

The board will give appropriate attention to written communications that are submitted by stockholders, and will respond if and as appropriate. The chairman of the Nominating and Corporate Governance Committee, with the assistance of our General Counsel, is primarily responsible for monitoring communications from stockholders and for providing copies or summaries to the other directors as he considers appropriate.

Communications are forwarded to all directors if they relate to important substantive matters and include suggestions or comments that the chairman of the Nominating and Corporate Governance Committee considers to be important for the directors to know. In general, communications relating to corporate governance and corporate strategy are more likely to be forwarded than communications relating to ordinary business affairs, personal grievances and matters as to which we tend to receive repetitive or duplicative communications.

Stockholders who wish to send communications on any topic to the board should address such communications to the Board of Directors, c/o Corporate Secretary, Cornerstone Therapeutics Inc., 1255 Crescent Green Drive, Suite 250, Cary, North Carolina, 27518. You should indicate on your correspondence that you are a Cornerstone Therapeutics Inc. stockholder.

Anyone may express concerns regarding questionable accounting or auditing matters or complaints regarding accounting, internal accounting controls or auditing matters to the Audit Committee by calling the voicemail box at (800) 799-6158. Messages to the Audit Committee will be received by the members of the Audit Committee and our Corporate Secretary. You may report your concern anonymously or confidentially.

### **Pre-Approval Policy and Procedures**

The Audit Committee has adopted policies and procedures relating to the approval of all audit and non-audit services that are to be performed by our independent registered public accounting firm. This policy generally provides that we will not engage our independent registered public accounting firm to render audit or non-audit services unless the service is specifically approved in advance by the Audit Committee or the engagement is entered into pursuant to one of the pre-approval procedures described below.

From time to time, the Audit Committee may pre-approve specified types of services that are expected to be provided to us by our independent registered public accounting firm during the next 12 months. Any such pre-approval is detailed as to the particular service or type of services to be provided and is also generally subject to a maximum dollar amount.

The Audit Committee has also delegated to the chair of the Audit Committee the authority to approve any audit or non-audit services to be provided to us by our independent registered public accounting firm. Any approval of services by the chair of the Audit Committee pursuant to this delegated authority is reported at the next meeting of the Audit Committee.

### **Related Person Transactions**

#### ***U.S. CUROSURF Agreement***

As a result of the Chiesi Transaction, Chiesi manufactures all of our requirements of CUROSURF, which we began promoting and selling in September 2009. Pursuant to the U.S. CUROSURF Agreement, we pay to Chiesi the greater of a percentage of the net sales price for CUROSURF or the applicable floor price set forth in the agreement. Inventory purchases from Chiesi under the U.S. CUROSURF Agreement from inception through March 31, 2012 aggregated approximately \$60.4 million. As of March 31, 2012, we had accounts payable of approximately \$2.1 million due to Chiesi.

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**Table of Contents**

***Policies and Procedures Regarding Review, Approval or Ratification of Related Person Transactions***

In March 2007, our Board of Directors adopted written policies and procedures for the review of any transaction, arrangement or relationship in which we are a participant, the amount involved exceeds \$120,000 and one of our executive officers, directors, director nominees or 5% stockholders (or their immediate family members), each of whom we refer to as a related person, has a direct or indirect material interest.

If a related person proposes to enter into such a transaction, arrangement or relationship, which we refer to as a related person transaction, the related person must report the proposed related person transaction to our General Counsel, who we refer to as our chief legal officer. The policy calls for the proposed related person transaction to be reviewed and, if deemed appropriate, approved by the Audit Committee. Whenever practicable, the reporting, review and approval will occur prior to entry into the transaction. If advance review and approval is not practicable, the Audit Committee will review, and, in its discretion, may ratify the related person transaction. The policy also permits the chair of the Audit Committee to review and, if deemed appropriate, approve proposed related person transactions that arise between committee meetings, subject to ratification by the Audit Committee at its next meeting. Any related person transactions that are ongoing in nature will be reviewed annually.

A related person transaction reviewed under the policy will be considered approved or ratified if it is authorized by the Audit Committee after full disclosure of the related person's interest in the transaction. As appropriate for the circumstances, the Audit Committee will review and consider:

the related person's interest in the related person transaction;

the approximate dollar value of the amount involved in the related person transaction;

the approximate dollar value of the amount of the related person's interest in the transaction without regard to the amount of any profit or loss;

whether the transaction was undertaken in the ordinary course of our business;

whether the terms of the transaction are no less favorable to us than terms that could have been reached with an unrelated third party;

the purpose of, and the potential benefits to us of, the transaction; and

any other information regarding the related person transaction or the related person in the context of the proposed transaction that would be material to investors in light of the circumstances of the particular transaction.

The Audit Committee may approve or ratify the transaction only if the committee determines that, under all of the circumstances, the transaction is in, or is not in conflict with, our best interests. The Audit Committee may impose any conditions on the related person transaction that it deems appropriate.

In addition to the transactions that are excluded by the instructions to the SEC's related person transaction disclosure rule, our Board of Directors has determined that the following transactions do not create a material direct or indirect interest on behalf of related persons and, therefore, are not related person transactions for purposes of this policy:

interests arising solely from the related person's position as an executive officer of another entity (whether or not the person is also a director of such entity), that is a participant in the transaction, where (a) the related person and all other related persons own in the aggregate less than a 10% equity interest in such entity, (b) the related person and his or her immediate family members are not

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involved in the negotiation of the terms of the transaction and do not receive any special benefits as a result of the transaction, and  
(c) the amount involved in the transaction equals less than the greater of \$200,000 or 5% of the annual gross revenues of the company receiving payment under the transaction; and

a transaction that is specifically contemplated by provisions of our charter or bylaws.

The policy provides that transactions involving compensation of executive officers shall be reviewed and approved by the Compensation Committee in the manner specified in its charter.

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**Table of Contents**

**PROPOSAL TWO RATIFICATION OF SELECTION OF INDEPENDENT  
REGISTERED PUBLIC ACCOUNTING FIRM**

The Audit Committee has selected the firm of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2012.

Although stockholder approval of the selection of Ernst & Young LLP is not required by law, our Board of Directors believes that it is advisable to give stockholders an opportunity to ratify this selection. If this proposal is not approved at the annual meeting, our Audit Committee will reconsider its selection of Ernst & Young LLP. Representatives of Ernst & Young LLP are expected to be present at the annual meeting and will have the opportunity to make a statement, if they desire to do so, and will be available to respond to appropriate questions from our stockholders. We do not expect representatives of Grant Thornton to be present at the annual meeting.

**Board Recommendation**

**The Board of Directors recommends a vote FOR the ratification of the selection of Ernst & Young LLP as Cornerstone Therapeutics Inc. s independent registered public accounting firm for the fiscal year ending December 31, 2012.**

**Audit Committee Report**

The Audit Committee consists of the following members of the Board of Directors of Cornerstone Therapeutics Inc. (the Company ): Mr. Codeanne, Mr. Enright and Mr. Heffernan. The Audit Committee is responsible for assisting the Board of Directors in fulfilling its oversight responsibilities pertaining to the accounting, auditing and financial reporting processes of the Company. Management is responsible for establishing and maintaining the Company s internal control over financial reporting and for preparing financial statements in accordance with accounting principles generally accepted in the United States of America. The Audit Committee is directly responsible for the appointment, oversight, compensation and retention of Grant Thornton LLP, the independent registered public accounting firm for the Company for the year ended December 31, 2011. Grant Thornton LLP is responsible for performing an independent audit of the Company s annual financial statements and expressing an opinion on the conformity of the Company s financial statements with accounting principles generally accepted in the United States of America.

The Board of Directors has determined that each of Mr. Codeanne, Mr. Enright and Mr. Heffernan (i) meets the independence criteria prescribed by applicable law and the rules of the Securities and Exchange Commission (the SEC ) for audit committee membership, (ii) is an independent director as defined in NASDAQ rules and (iii) meets NASDAQ s financial knowledge and sophistication requirements. The Board of Directors has determined that Mr. Codeanne is an audit committee financial expert under SEC rules. The Audit Committee operates pursuant to a written charter approved by the Board of Directors. The charter is available on the Company s website at [www.crtx.com](http://www.crtx.com).

The Audit Committee s responsibility is one of oversight. The Audit Committee s oversight responsibility relating to the accounting, auditing and financial reporting processes of the Company includes overseeing the Company s processes and internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002.

Members of the Audit Committee rely on the information provided and the representations made to them by:

management, which has primary responsibility for the Company s financial statements and reports and for establishing and maintaining appropriate internal control over financial reporting; and

## **Table of Contents**

the independent registered public accounting firm for the Company, which is responsible for performing an audit in accordance with Standards of the Public Company Accounting Oversight Board – United States ( PCAOB ) and expressing an opinion on the conformity of the Company’s financial statements with accounting principles generally accepted in the United States.

In this context, we have reviewed and discussed with management the Company’s audited financial statements as of and for the year ended December 31, 2011.

We have discussed with Grant Thornton LLP, the independent registered public accounting firm for the Company for the year ended December 31, 2011, the matters required to be discussed by Statement on Auditing Standards No. 61, *Communication with Audit Committees*, as amended (AICPA, Professional Standards, Vol. 1., AU section 380), as adopted by the PCAOB.

We have received and reviewed the written disclosures and the letter from Grant Thornton LLP required by applicable requirements of the PCAOB regarding Grant Thornton LLP’s communications with us concerning independence, and have discussed with them their independence. We have concluded that Grant Thornton LLP’s provision of audit and non-audit services to us is compatible with their independence.

Based on the reviews and discussions referred to above, and exercising our business judgment, we recommended to the Board of Directors that the financial statements referred to above be included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2011 for filing with the SEC. We have selected Ernst & Young LLP as the independent registered public accounting firm for the Company for the year ending December 31, 2012, and have approved submitting the selection of the independent registered public accounting firm for ratification by the stockholders.

By the Audit Committee of the Board of

Directors of Cornerstone Therapeutics Inc.

*Christopher Codeanne, Chair*

*Michael Enright*

*Michael Heffernan*

### **Dismissal of Grant Thornton LLP**

Following a competitive process undertaken by the Audit Committee on March 21, 2012, we dismissed Grant Thornton LLP ( Grant Thornton ) as our independent registered public accounting firm and engaged Ernst & Young LLP ( Ernst & Young ) as our independent registered public accounting firm for the fiscal year ending December 31, 2012. The decision to dismiss Grant Thornton and engage Ernst & Young was made by the Audit Committee.

Grant Thornton’s report on our financial statements as of and for the fiscal years ended December 31, 2011 and 2010 did not contain an adverse opinion or a disclaimer of opinion, and was not qualified or modified as to uncertainty, audit scope, or accounting principles.

During the fiscal years ended December 31, 2011 and 2010, and through the date of Grant Thornton’s dismissal, there were no (i) disagreements between us and Grant Thornton on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Grant Thornton, would have caused Grant Thornton to make a reference to the subject matter of the disagreements in connection with its report or (ii) reportable events as described in Item 304(a)(1)(v) of Regulation S-K.

**Table of Contents**

During the fiscal years ended December 31, 2011 and 2010 and the subsequent interim period through the date of Ernst & Young's engagement, we did not consult with Ernst & Young regarding (i) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on our financial statements, and Ernst & Young did not provide either a written report or oral advice to us that Ernst & Young concluded was an important factor considered by us in reaching a decision as to any accounting, auditing, or financial reporting issue or (ii) any matter that was either the subject of any disagreement (as described in Item 304(a)(1)(iv) of Regulation S-K) or a reportable event (as described in Item 304(a)(1)(v) of Regulation S-K).

We provided Grant Thornton a copy of these disclosures and requested that Grant Thornton furnish us with a letter addressed to the SEC stating whether or not Grant Thornton agrees with the above statements. A copy of such letter, dated March 27, 2012, furnished by Grant Thornton in response to that request is filed as Exhibit 16.1 to our Current Report on Form 8-K filed on March 27, 2012.

**Independent Registered Public Accounting Firm's Fees**

The following table summarizes the fees that Grant Thornton billed to us for each of the last two fiscal years for audit and other services. For 2011, audit fees include an estimate of amounts not yet billed.

<b>Fee Category</b>	<b>2011</b>	<b>2010</b>
Audit Fees(1)	\$ 308,400	\$ 298,231
Audit-Related Fees(2)		
Tax Fees(3)	29,100	
All Other Fees(4)		
<b>Total Fees</b>	<b>\$ 337,500</b>	<b>\$ 298,231</b>

- (1) Audit fees consist of fees related to professional services rendered in connection with reviews of our quarterly filings on Form 10-Q, the audit of our consolidated financial statements and other professional services provided in connection with statutory and regulatory filings or engagements.
- (2) Audit-related fees consist of fees for assurance and related services that are reasonably related to the performance of the audit and the review of our financial statements and which are not reported under Audit Fees. No fees for audit-related services were incurred in 2010 or 2011.
- (3) Tax fees consist of fees for tax compliance, tax advice and tax planning services. Tax compliance services relate to the preparation of federal and state tax returns and quarterly estimated tax payments. Tax advice and tax planning services relate to miscellaneous items.
- (4) No fees for other services were incurred in 2010 or 2011.

**Table of Contents****STOCK OWNERSHIP INFORMATION**

The following table sets forth information regarding beneficial ownership of our common stock as of April 5, 2012 by:

each person, entity or group of affiliated persons or entities known to us to be the beneficial owner of more than 5% of the outstanding shares of our common stock;

each of our directors;

our Chief Executive Officer, our Chief Financial Officer, our three other most highly compensated executive officers during 2011 and one additional officer who would have been a named executive officer but for the fact that he was not serving as an executive officer at the end of fiscal 2011; and

all of our directors and executive officers as a group.

Beneficial ownership is determined in accordance with the applicable rules of the SEC and includes voting or investment power with respect to shares of our common stock. Shares of common stock issuable under stock options and warrants that are currently exercisable or exercisable within 60 days of April 5, 2012 are deemed to be beneficially owned by the person holding the option or warrant for purposes of calculating the percentage ownership of that person but are not deemed outstanding for purposes of calculating the percentage ownership of any other person. The information set forth below is not necessarily indicative of beneficial ownership for any other purpose, and the inclusion of any shares deemed beneficially owned in this table does not constitute an admission of beneficial ownership of those shares. Unless otherwise indicated, to our knowledge, all persons named in the table have sole voting and investment power with respect to the shares of common stock beneficially owned by them, except, where applicable, to the extent authority is shared by spouses under community property laws.

Name and Address of	Number of Outstanding Shares Beneficially Owned	Shares Underlying Options Exercisable within 60 Days	Total Number of Shares Beneficially Owned	Percentage of Common Stock Beneficially Owned
<b>Beneficial Owner(1)</b>				
<b>5% Stockholders</b>				
Chiesi Farmaceutici S.p.A. Via Palermo 26/A 43122 Parma, Italy	15,687,538		15,687,538	60.0%
Craig A. Collard(2) Chief Executive Officer and Director	1,567,225	465,385	2,032,610	7.6%
Cornerstone Biopharma Holdings, Ltd.	1,567,225		1,567,225	6.0%
<b>Directors and Named Executive Officers</b>				
Alessandro Chiesi Director		30,000	30,000	*
Christopher Codeanne Director		42,500	42,500	*
Michael Enright Director		42,500	42,500	*
Anton Giorgio Failla Director		30,000	30,000	*
James Harper Director		3,333	3,333	*
Michael Heffernan Director		46,071	46,071	*

Robert Stephan <i>Director</i>	30,000	30,000	*
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**Table of Contents**

Name and Address of	Number of Outstanding Shares Beneficially Owned	Shares Underlying Options Exercisable within 60 Days	Total Number of Shares Beneficially Owned	Percentage of Common Stock Beneficially Owned
<b>Beneficial Owner(1)</b> Marco Vecchia <i>Director</i>		25,000	25,000	*
Kenneth R. McBean <i>President</i>	50,000		50,000	*
Vincent T. Morgus <i>Executive Vice President, Finance, Chief Financial Officer and Treasurer</i>	51,278	23,333	74,611	*
Andrew K. W. Powell <i>Executive Vice President, General Counsel and Secretary</i>	98,100	15,625	113,725	*
Steven M. Lutz <i>Former Executive Vice President, Manufacturing and Trade</i>	262,348	194,269	456,617	1.7%
Alan Roberts <i>Vice President, Scientific Affairs</i>	68,250	76,821	145,071	*
All executive officers and directors as a group (13 persons, consisting of 5 executive officers and 8 non-employee directors)	1,834,853	830,568	2,665,421	9.9%

\* Represents beneficial ownership of less than one percent of common stock.

- (1) Unless otherwise indicated, the address of each beneficial owner is care of Cornerstone Therapeutics Inc., 1255 Crescent Green Drive, Suite 250, Cary, North Carolina 27518.
- (2) Consists of 1,567,225 shares of common stock held by Cornerstone Biopharma Holdings, Ltd. Mr. Collard owns 100% of the outstanding common stock and is the President, Chief Executive Officer and a director of Cornerstone Biopharma Holdings, Ltd. and by virtue of such positions exercises voting and investment power with respect to the Cornerstone Therapeutics Inc. shares owned by Cornerstone Biopharma Holdings, Ltd.

**Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Exchange Act requires our directors, executive officers and the holders of more than 10% of our common stock to file with the SEC initial reports of ownership of our common stock and other equity securities on a Form 3 and reports of changes in such ownership on a Form 4 or Form 5. Officers, directors and 10% stockholders are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file. To our knowledge, based solely upon a review of the copies of such forms furnished to us for the year ended December 31, 2011, and the information provided to us by those persons required to file such reports, no such person failed to file the forms required by Section 16(a) of the Exchange Act on a timely basis during the year ended December 31, 2011.

**Table of Contents**

**INFORMATION ABOUT EXECUTIVE AND DIRECTOR COMPENSATION**

**Executive Compensation**

**Compensation Discussion and Analysis**

The Compensation Discussion and Analysis, which we refer to herein as the CD&A, describes our executive compensation philosophy, components and policies, including analysis of the compensation earned by our named executive officers for 2011 as detailed in the accompanying tables.

The following executives were our named executive officers for 2011:

<b>Name</b>	<b>Position</b>
Craig A. Collard	Chief Executive Officer, President (from November 2008 through September 2011) and Interim Chief Financial Officer (from July 2010 through January 2011)
Vincent T. Morgus	Executive Vice President, Chief Financial Officer and Treasurer
Kenneth R. McBean	President
Andrew K. W. Powell	Executive Vice President, General Counsel and Secretary
Alan Roberts	Vice President, Scientific Affairs
Steven M. Lutz	Former Executive Vice President, Manufacturing and Trade

**Executive Summary**

***Key Executive Compensation Actions and Highlights***

In 2011, we continued to implement our pay for performance philosophy, taking into account both our company's performance and various considerations that affect our ability to achieve our strategic growth objectives. The elements of our compensation process, and the rationale for each, are described below.

For 2011, we did not award merit increases in base salary to our named executive officers. For 2012, our Compensation Committee again decided not to award merit increases in base salary to our named executive officers, but made a small adjustment to Mr. Powell's base salary since it had been unchanged since his hiring in 2009.

Our Compensation Committee nonetheless determined that we performed well in 2011, including over-achieving our financial goals for non-GAAP income from operations and growth in sales of our strategic products. The Committee also noted that we defined and began to execute our strategic plan, and that we met most of our other corporate and organizational goals. Accordingly, our named executive officers received cash bonuses which, when taken together as a group, represented payment of substantially all of their target bonuses for 2011.

Our Compensation Committee determined that it would keep annual cash bonus targets for 2012 at 2011 levels.

In March 2011 and February 2012, we granted stock options to each of our named executive officers who had been with us for more than six months. These awards reflected our corporate performance, the executives' individual performance and the target equity award levels reflected in certain executives' employment agreements.

## **Table of Contents**

### ***Compensation Governance***

Consistent with our philosophy of pay for performance, the following features are built into our executive compensation process to ensure appropriate process and governance:

Our Compensation Committee is comprised solely of independent directors.

Our Compensation Committee uses independently generated third party data to obtain an understanding of compensation practices at companies in our industry.

Our Compensation Committee approves and reviews our executive officers' individual goals to ensure that they are aligned with our corporate goals and that they do not create incentives to engage in behaviors that might expose us to undue risk or have a material adverse effect on us.

Our Compensation Committee regularly reviews our executive compensation program as a whole, including base salaries, annual cash incentives and equity-based incentives, to ensure that it properly rewards the value of executives' contributions to the achievement of our corporate goals.

Our Board of Directors has adopted a clawback policy that will allow us to seek recovery of certain compensation from our executive officers in the event of an accounting restatement caused by our material noncompliance with applicable financial reporting requirements.

Our policies include stringent insider trading policy prohibitions as well as prohibitions on speculating or trading in derivative instruments related to company securities.

In 2011 we provided, and every three years thereafter we expect to provide, our stockholders with the opportunity to cast an advisory vote on executive compensation as required by Section 14A of the Exchange Act.

### ***Executive Compensation Philosophy***

The principal objectives of our executive compensation program are to attract and retain talented executives. Our philosophy is then to use compensation as a tool for rewarding performance and thereby creating and maintaining stockholder value.

### ***Elements of Compensation***

We have entered into executive employment agreements with each of our named executive officers. Each of our named executive officers is entitled to the following elements of compensation, which are discussed more fully below:

base salary;

target bonus (in the discretion of our Compensation Committee); and

target equity awards (in the discretion of our Compensation Committee).

**Compensation Principles, Philosophy and Objectives**

The following principles have guided our Compensation Committee in developing our compensation programs and in determining total compensation levels for our executive officers:

we must be prepared to compete with larger organizations with greater resources for executive talent;

our compensation practices should take into account the ongoing transformation of our business and our continuing growth strategies; and

our compensation programs should encourage our executive officers to increase long-term stockholder value in a manner that appropriately rewards the achievement of specified short-term objectives without creating undue risk for us or our stockholders. The goal of our executive compensation program is to attract and retain key employees and then motivate them to achieve and reward them for achieving our business goals. We do this by:

**Table of Contents**

providing competitive compensation that consists of cash and equity-based components that appropriately encourage and reward performance and create enduring long-term stockholder value;

rewarding our executive officers for their individual contributions to our success;

aligning the interests of our executives as a group by linking individual executive compensation to the company-wide achievement of both our short-term operating imperatives and our long-term strategic objectives; and

aligning the interests of our executives with those of our stockholders by building a culture of equity ownership and shared risk.

**Elements of Executive Compensation**

Consistent with our executive officers' employment agreements, our Compensation Committee determined that the compensation of our executive officers for 2011 should consist of base salary, a discretionary bonus and stock-based compensation. The committee does not target a specific mix of executive compensation by allocating total compensation across cash and noncash pay, between current and long-term pay or among different types of long-term incentive awards.

Our overall executive compensation program includes the following major elements:

<b>Compensation Element</b>	<b>Objective</b>	<b>Key Features</b>
Base salary	Provide a fixed level of cash compensation based on responsibilities, background, training and experience to encourage retention and recognize performance.	Annually reviewed by our Compensation Committee.
Cash Bonus	Reward executive officers for their individual performance and contributions to corporate performance. Reinforce pay for performance.	Determined in the discretion of our Compensation Committee based on broad parameters, not fixed formulas.
Stock-based compensation	Align our executive officers' long-term interests with those of our stockholders by rewarding officers for sustaining long-term corporate performance; encourage retention through the use of vesting provisions.	Consists of stock options and, for certain executive officers under certain circumstances, restricted stock awards.
Broad-based benefits	Provide a safety net of protection against the financial catastrophes that can result from illness, disability or death.	Executive officers participate in the same plans as other employees, except that our medical insurance, dental insurance and vision insurance plans are provided to them at no cost.
Perquisites and severance benefits	Promote client development and fulfillment of business duties on an efficient and cost-effective basis; provide reasonable level of severance compensation in certain circumstances.	Designed to represent a small part of our overall compensation package.

## **Table of Contents**

### **Process for Determining Executive Compensation**

#### ***Overview***

Our Compensation Committee annually approves salary increases, targets for annual bonuses, the amounts of stock option and restricted stock awards and payouts of bonuses, in its discretion. In exercising its discretion, the committee considers our actual corporate performance compared to our corporate goals and actual individual performance compared to individual goals, as well as various subjective performance criteria. In general, our Compensation Committee does not take into account amounts realizable from prior compensation when making future pay decisions.

#### ***Role of Executive Officers***

Our Chief Executive Officer assists our Compensation Committee by annually developing the individual objectives and reviewing the performance of each of our executive officers (other than his own, which is reviewed by our Compensation Committee). Our Chief Executive Officer generally makes specific recommendations regarding salary adjustments and amounts of discretionary bonuses, if any, for each executive. Our Chief Executive Officer's recommendations are then reviewed by our Compensation Committee. That review includes a rigorous assessment of our overall corporate performance and the performance of individual executives, and includes consideration of any factors that are relevant to corporate or executive performance. The committee then either approves our Chief Executive Officer's recommendations or exercises its discretion by modifying any recommended salary adjustments and/or bonus payments to our executive officers. In exercising its discretion the committee may take into account the market data information discussed below.

#### ***Role of Compensation Consultants and Surveys***

In setting executive compensation, our Compensation Committee generally considers, along with various other factors, the compensation paid to officers with similar responsibilities in similar companies. Our Compensation Committee does not retain a compensation consultant to assist in setting executive compensation. However, in order to improve its understanding of compensation practices at companies in our industry, our Compensation Committee does consider market data from a variety of sources, including the Radford Survey covering pharmaceutical and bio-technology companies having between 150 and 499 employees and between \$50 million and \$150 million in revenues. The committee does not use this data, or any customized subset thereof, to benchmark its compensation decisions. In 2011, after establishing compensation levels, it used this data to assess and confirm generally whether the nature and overall level of compensation paid to our executives, including the compensation packages provided to our newly hired executives, is reasonably sufficient to support our objectives of attracting and retaining talented executives. Our Compensation Committee did not attempt to align our overall compensation structure to any specific percentile of the companies whose data it reviewed.

#### ***Role of Corporate and Individual Performance***

Our Compensation Committee believes that our success is dependent upon, and reflective of, the performance of our senior management team, including our executive officers. In an effort to appropriately incentivize our executives to achieve certain objectives, the committee approves various commercialization, research, clinical, regulatory, financial, operational and organizational goals. The process of setting performance goals begins with our Chief Executive Officer proposing our annual corporate goals. These are reviewed by our Compensation Committee and then modified as the committee believes is appropriate. Our Compensation Committee then recommends that our full Board provisionally adopt these corporate goals, subject to further review and adjustment throughout the year as necessary based on changing market and competitive conditions.

Once we have set our corporate goals, we establish individual goals for each of our executive officers. Our Chief Executive Officer's individual goals are the same as our corporate goals. The individual goals for our other executive officers are set early in the first quarter of the calendar year and focus on contributions that will facilitate the achievement of our corporate goals. Each executive officer reviews our corporate goals and

## **Table of Contents**

proposes individual goals that appropriately support our corporate goals, taking into account the executive's functional responsibilities. These individual goals are approved by our Chief Executive Officer and then submitted to our Compensation Committee for discussion, revision and adoption.

Our Compensation Committee regularly tracks our progress towards our corporate and individual goals, and in 2011 this was a standing agenda item for all regularly scheduled Compensation Committee meetings. As part of this process the Compensation Committee also assesses the continuing relevance of these goals, and may add to or revise these goals as necessary or appropriate based on emergent challenges and opportunities. Our Compensation Committee believes that if our focus changes due to market shifts or potential opportunities, our goals, on an individual and corporate basis, should be correspondingly adjusted to encourage our executive officers to position us to capitalize on such shifts and opportunities, rather than focusing on past goals that may or may not continue to enhance stockholder value. Any change in our corporate goals is subject to adoption by the full Board of Directors.

Goals may relate to objective financial metrics (such as the achievement of a certain level of sales), to objective non-financial achievements (such as the approval of a product for sale) or to qualitative performance (such as building and integrating a new process into our operational structure). We intend for goals to be achievable as the result of sustained focused effort on the part of the executive team, and it is our expectation that in normal circumstances executives will achieve substantially all of their individual goals, and as a result we will achieve substantially all of our corporate goals.

### *Corporate Performance*

When making compensation decisions for our executive officers with respect to annual bonuses and equity awards, our Compensation Committee first assesses the level to which we have achieved our corporate goals. The assessment of the achievement of any corporate goal is in the discretion of our Compensation Committee, and may exceed 100%. In reaching an overall assessment of corporate performance, our Compensation Committee may choose to weight our corporate goals. The overall assessment may be expressed as a percentage of full goal achievement. The assessment takes into account any revisions to goals made throughout the year. The weighting of particular goals is a matter of committee discretion, though as a general rule the committee ascribes particular weight to goals related to financial performance. While total achievement of all corporate goals, as revised during the year, may not be expected, our Compensation Committee demands that management significantly advance our business objectives and the interests of stockholders throughout the year for the committee to consider it appropriate to base decisions regarding cash and equity incentive compensation on an overall assessment that we achieved our corporate goals at 100% or more.

### *Individual Performance*

Having made an overall assessment of corporate performance, our Compensation Committee then assesses the level to which each of our executive officers achieved their individual goals. In assessing individual achievement, our Compensation Committee may choose to weight an individual's goals, and the resulting assessment may be expressed as a percentage of full goal achievement.

In making compensation decisions for each individual executive officer, our Compensation Committee considers both the executive's achievement of his individual goals and our achievement of our corporate goals. Because the goals of our Chief Executive Officer are the same as our corporate goals, the committee's assessment of his individual achievement will be the same as the committee's overall assessment of our corporate performance. In the case of other executive officers, the committee will exercise its discretion in balancing individual achievement and corporate performance when determining annual cash bonus and equity awards, as it deems appropriate.

**Table of Contents**

Our Compensation Committee believes that it is not appropriate, at our stage of development, to have a rigid funding metric for executive bonus and equity awards. However, as a general matter, the committee believes that, in the absence of special circumstances, our pay-for-performance philosophy demands that actual annual bonus and equity awards made to our executive officers, as a group, should not reflect a level of achievement in excess of that reflected in the committee's overall assessment of corporate performance. Our Compensation Committee believes that, at this time, this flexible but principled process is appropriate because it allows the committee to consider (i) goals established by the committee at the beginning of the year and goals communicated to our executive officers at any point throughout the year, (ii) the effects of unanticipated events and circumstances on our business or on a particular executive's performance, and (iii) the performance of our executives in managing change, addressing emergent challenges and exploiting unexpected opportunities.

Our 2011 corporate and individual goals and their impact on our named executive officers' compensation are discussed more fully below.

**Impact of 2011 Say-on-Pay Vote on Executive Compensation**

In approving the 2012 compensation of our named executive officers, our Compensation Committee considered the results of the advisory vote on executive compensation at the 2011 Annual Meeting of Stockholders. Over 99% of the votes cast on this say-on-pay proposal were voted in favor of approving, on an advisory basis, the compensation of our named executive officers. Our Compensation Committee believes these results affirm our stockholders' support of our approach to executive compensation. Accordingly, our Compensation Committee did not adopt any changes to our executive compensation based on the results of the say-on-pay vote. Our Compensation Committee will continue to consider the outcome of say-on-pay proposals when making future compensation decisions for our named executive officers.

**Executive Compensation in 2011****Base Salary**

Our Compensation Committee has established base salaries for our named executive officers at levels that are intended to reflect the scope of their responsibilities and relevant backgrounds, training and experience. When establishing a named executive officer's base salary, our Compensation Committee takes into account his seniority, his level of responsibility, the functional role of the position and compensation practices in the pharmaceutical industry and among public companies. The Compensation Committee reviews our named executive officers' base salaries annually.

The following table shows annual base salaries in effect for 2010, 2011 and 2012 for each named executive officer, as well as the percentage increase from 2011 to 2012:

Executive	2010 Base Salary	2011 Base Salary	Percent Increase	2012 Base Salary
Craig A. Collard	\$ 400,000	\$ 400,000	N/A	\$ 400,000
Vincent T. Morgus	N/A	\$ 285,000	N/A	\$ 285,000
Kenneth R. McBean	N/A	\$ 295,000	N/A	\$ 295,000
Andrew K. W. Powell	\$ 275,000	\$ 275,000	2%	\$ 280,500
Alan Roberts	\$ 231,750	\$ 231,750	N/A	\$ 231,750
Steven M. Lutz	\$ 267,800	\$ 267,800	N/A	N/A

For 2011, we did not award merit increases in base salary to our named executive officers. For 2012, our Compensation Committee again decided not to award merit increases in base salary to our named executive officers, but made a small adjustment to Mr. Powell's base salary since it had been unchanged since his hiring in 2009.



## Table of Contents

### *Annual Performance-Based Cash Incentive Compensation*

Our current named executive officers are eligible for annual cash bonuses pursuant to the terms of their respective employment agreements. Annual bonuses are intended to link our strategic and corporate operating plans with individual performance, and to provide executive officers with incentives to achieve greater corporate performance by focusing on the attainment of specific goals.

Our Compensation Committee annually determines the target cash bonus for each named executive officer based on a percentage of such officer's annual base salary. Although the employment agreements we have entered into with each of our named executive officers provide for target cash bonuses up to 50% for Mr. Collard, 40% for Mr. McBean and 35% for our other named executive officers, our Compensation Committee retains discretion to set the target cash bonuses for each named executive officer either above or below these levels. For 2011, our Compensation Committee set the target cash bonus for each of our named executive officers, other than Mr. Collard, at the maximum target level set forth in the executive's respective employment agreement. In the case of Mr. Collard, the committee set the target cash bonus percentage at 75% of base salary to incentivize performance during 2011.

### *2011 Cash Bonus*

When exercising its discretion in awarding cash bonuses for 2011, our Compensation Committee considered our achievement of our overall corporate goals and our named executive officers' achievement of their individual goals. In part, our Compensation Committee used non-GAAP income from operations as one of the measures of our performance. The section titled "Reconciliation of Non-GAAP Financial Measures" on pages 68 and 69 of Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2011 filed with the SEC on March 6, 2012 contains an explanation of how we calculate this measure and provides a reconciliation of this measure to the most directly comparable GAAP measure. In reviewing all of our 2011 corporate goals, our Compensation Committee focused on the degree to which we were able to achieve our corporate goals, which included:

To achieve net revenue in excess of \$112.5 million for all products;

To achieve net revenue in excess of \$76.8 million for strategic products;

To achieve non-GAAP income from operations in excess of \$14.1 million;

To finalize, communicate and execute a strategic plan;

To complete an acquisition transaction meeting the criteria set forth in our strategic plan;

To meet the product development milestones set forth in our strategic plan;

To achieve target prescription levels of strategic products; and

To make certain organizational changes to enhance organizational alignment, efficiency and compliance.

Based on its review of our corporate performance, our Compensation Committee determined that we performed well in 2011 and over-achieved most of our financial goals, and while failing to achieve certain product development milestones, substantially achieved most of our other goals. Our Compensation Committee ultimately determined that 95% represented a reasonable estimate of the extent to which we had met our corporate goals for 2011 and was therefore an appropriate basis from which to make bonus determinations.

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In making this estimate, our Compensation Committee considered all aspects of our corporate performance in 2011, focusing on the following key financial and non-financial results for the year:

Net revenues from all products were 101.4 million in 2011, but were negatively impacted by unexpected actions by the FDA that limited our ability to harvest revenues from our marketed unapproved products which we ceased to manufacture and sell on December 31, 2010;

**Table of Contents**

Net revenues from strategic products increased \$5.2 million to \$79.9 million in 2011;

Non-GAAP income from operations was \$18.3 million in 2011;

We completed and announced a strategic plan in June 2011;

We completed the acquisition of Cardiokine, Inc. in December 2011;

We did not meet all of our product development milestones;

We substantially achieved target prescription levels of our strategic products; and

We made significant organizational changes that enhanced our organizational alignment, our efficiency and our compliance efforts. In reaching its final assessment that we achieved nearly all of our goals, our Compensation Committee applied a subjective approach, ascribing particular weight to our achievement of financial metrics and our significant over-achievement in strategic product revenues, as well as the effective execution of key initial elements of our strategic plan. At the same time, however, our Compensation Committee also took note of the fact that, due in part to certain factors outside of our control, we did not achieve all of our sales targets (particularly with respect to our marketed unapproved products) or all of our objectives with respect to our product development projects.

In addition to considering our overall corporate performance, our Compensation Committee also took into account the achievement by our named executive officers of the following individual goals:

*Craig Collard.* Mr. Collard's goals were the same as our corporate goals, so the committee assessed his performance in the same way that it assessed our overall performance.

*Ken McBean.* Mr. McBean's goals related to the assumption of all responsibility for our commercial functions. In determining Mr. McBean's annual cash bonus award, the committee noted the progress that Mr. McBean had made during his four month tenure in connection with the achievement of key priorities identified in our strategic plan.

*Andrew Powell.* Mr. Powell's goals related to the management of our disclosure and compliance functions, the reduction of our legal expenses, the completion of certain acquisition and divestiture transactions, the rationalization of our intellectual property portfolio and the adoption of governance and organizational processes appropriate for a company of our size and structure. In determining Mr. Powell's annual cash bonus award, the committee considered that our corporate goals and the interests of our stockholders were significantly advanced in each of these areas.

*Vincent Morgus.* Mr. Morgus's goals related to the management of our finance and investor relations functions, the upgrade and continuous improvement of our planning, budgeting and reporting processes, the enhancement of our business development function and the achievement of certain working capital targets. In determining Mr. Morgus's annual cash bonus award, the committee considered the progress achieved by our finance and investor relations functions, the increase in opportunities identified by our business development function and our performance against our working capital goal.

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*Alan Roberts.* Mr. Roberts' s goals related to advancement of various of our pipeline products and product candidates, the upgrade and continuous improvement of our quality and compliance functions and the establishment of, and adherence to, timelines and budgets for various projects identified in our strategic plan. In determining Mr. Roberts' s annual cash bonus award, the committee considered that some of our development projects had not advanced as planned.

Our Compensation Committee' s assessment of each named executive officer' s achievement was then weighed together with the committee' s overall assessment of our performance against our corporate goals. The committee, in its discretion, then made awards to each executive officer such that total cash bonus payouts to all executive officers, as a group (which includes all of our named executive officers), did not exceed the committee' s overall assessment of the extent to which we achieved our corporate goals.

**Table of Contents**

The following table illustrates our actual and target cash bonuses for 2011:

Executive	2011 Target Bonus		2011 Actual Cash Bonus		
	Dollars	% of Base Salary	Dollars	% of Base Salary	% of Target
Craig A. Collard	\$ 300,000	75%	\$ 285,000	71%	95%
Vincent T. Morgus(1)	\$ 91,438	35%	\$ 89,775	32%	98%
Kenneth R. McBean(2)	\$ 38,940	40%	\$ 38,940	13%	100%
Andrew K. W. Powell	\$ 96,250	35%	\$ 96,250	35%	100%
Alan Roberts	\$ 81,113	35%	\$ 20,278	9%	25%
Steven M. Lutz(3)	\$ 107,120	40%	\$ 80,340	30%	75%

- (1) Mr. Morgus' s employment with us commenced on February 1, 2011. Under the terms of his executive employment agreement, his prorated target bonus for fiscal 2011 was 32% of his annual base salary
- (2) Mr. McBean' s employment with us commenced on September 6, 2011. Under the terms of his executive employment agreement, his prorated target bonus for fiscal 2011 was 13% of his annual base salary.
- (3) Mr. Lutz' s employment with us terminated on September 30, 2011. Under the terms of his executive employment agreement, we were required to pay him 100% of his 2011 target bonus pro-rated to the date of his termination.

**2012 Target Cash Bonus**

Our Compensation Committee determined that it would keep annual cash bonus targets at 2011 levels, and for purposes of measuring performance and determining appropriate incentive awards it would follow a similar process to that followed in 2011.

**Stock-Based Compensation****Background**

Our named executive officers are generally awarded initial stock options and/or, in certain cases, restricted stock grants at the time of hire. Additionally, our Compensation Committee approves annual grants of options to our named executive officers based on level of responsibility and perceived overall contribution to the generation of stockholder value. The degree to which an individual achieved his goals for a particular year is factored into making the assessment of overall contribution, but the individual' s performance of non-goal specific activities may be taken into account. Although we do not measure ourselves against a specific benchmark, we believe that the annual aggregate value of awards (using the Black Scholes-Merton or equivalent valuation methodology) of options to named executive officers reflects competitive levels for similar companies, as reflected in the third-party data that is available to our Compensation Committee.

We have granted certain named executive officers shares of restricted stock at the time of hire because we believe that in such circumstances restricted stock enables us to attract executive talent and is a powerful retention tool. On an ongoing basis, however, we believe that the grant of options to purchase common stock is the best way to give executives an incentive to build and sustain stockholder value over an extended period of time. Options also align the interests of executives and stockholders by enabling our executives to participate in any increase in stockholder value resulting from their efforts. Our stock option and restricted stock grants typically provide for vesting over four years, which encourages retention.

Our Compensation Committee generally approves annual equity awards at the committee meeting held in conjunction with the first meeting of the Board of Directors each year, and, if its decision is ratified by our Board, such awards are normally effective on the date of ratification. We believe that this timing is appropriate as it provides sufficient time for a thorough review of corporate and individual performance during the preceding year, while also providing timely reinforcement for award recipients. Our Compensation Committee awards equity grants without regard to any scheduled or anticipated release of material information. We do not accelerate or delay equity grants in response to material

information, nor do we delay the disclosure of information due to plans to make equity grants.

**Table of Contents***Impact of the Chiesi Transaction*

In connection with the Chiesi Transaction, entities controlled by Mr. Collard and Mr. Lutz sold shares to Chiesi, and Mr. Collard, Mr. Lutz and the entities controlled by them agreed to refrain, through July 28, 2011, from purchasing or transferring our common stock except in accordance with the Stockholders Agreement (as discussed below). Mr. Collard and Mr. Lutz also entered into executive employment agreements with us (as discussed more fully below) in which they each agreed that they would not be eligible to receive any annual equity awards, unless approved by our Board of Directors or a committee thereof.

Mr. Roberts, who was also employed by us at the time of the Chiesi Transaction, entered into executive employment agreement that provides that he would be eligible to receive an annual target equity award in the form of an option to purchase, in whole or in part, up to 50,000 shares of our common stock in each of the years 2010, 2011 and 2012, vesting over a four-year period, subject to his continued employment with us. He also agreed not to transfer a certain number of his shares through July 28, 2011.

*2011 Equity Awards*

In March 2011, we made annual stock option awards to each of our named executive officers, other than Mr. Morgus (whose employment commenced in February 2011) and Mr. McBean (whose employment commenced in September 2011). In making the equity awards to Mr. Collard, Mr. Lutz, Mr. Powell and Mr. Roberts, our Compensation Committee considered their achievements in 2010, including:

*Craig Collard.* The committee considered 2010 performance, and specifically the fact that in 2010 Mr. Collard's leadership was particularly important in the achievement of our financial goals and the positioning of our company for growth after ceasing manufacture and sale of marketed unapproved products .

*Steven Lutz.* The committee considered that in 2010 Mr. Lutz made a significant contribution to the sales of marketed unapproved products and the growth of our company.

*Andrew Powell.* The committee considered that in 2010 Mr. Powell made a significant contribution to positioning us for growth after ceasing manufacture and sale of marketed unapproved products, and that the interests of our stockholders were significantly advanced in each of his areas of responsibility.

*Alan Roberts.* The committee considered that in 2010 Mr. Roberts made a significant contribution to the advancement of our product pipeline, the establishment of our cough and cold platform, and the improvement in our quality systems.

In 2011 our Compensation Committee made equity awards to Mr. Morgus and Mr. McBean at the start of their employment with us, in amounts deemed appropriate to their positions. In light of their consideration, our Compensation Committee approved, and our Board of Directors ratified, the following stock option grants to our named executive officers in 2011:

<b>Executive</b>	<b>No. of Options</b>
Craig A. Collard	95,000
Vincent T. Morgus	70,000
Kenneth R. McBean	75,000
Andrew K. W. Powell	50,000
Alan Roberts	42,500
Steven M. Lutz	50,000

Each option award vests over four years, with 25% vesting on the one-year anniversary of the grant date and the remaining 75% vesting in 36 equal monthly installments, subject to the named executive officer's continued employment with us.

Consistent with our policy, in connection with the appointment during 2011 of Mr. Morgus as our Executive Vice President, Finance and Chief Financial Officer and Mr. McBean as our President, we granted Mr. Morgus 55,000 shares of restricted stock and Mr. McBean 50,000 shares of

restricted stock. Each restricted stock award



**Table of Contents**

vests over four years, with 25% vesting on the one-year anniversary of the grant date and the remaining 75% vesting approximately 6.3% on a day to be randomly determined in each of the next 11 calendar quarters (provided that in no event shall the days so chosen in two consecutive quarters be less than 60 days apart from each other).

*2012 Equity Awards*

In February 2012, our Compensation Committee, in the exercise of its discretion to make executive equity awards, conducted the same analysis of corporate and individual performance as it conducted in determining the level of 2011 cash bonuses (see Annual Performance-Based Cash Incentive Compensation above). As a result of this analysis, and taking into account the annual equity award targets set forth in certain of the named executive officers' employment agreements, we made the following stock option grants to our named executive officers in 2012:

<b>Executive</b>	<b>No. of Options</b>
Craig A. Collard	95,000
Vincent T. Morgus	45,000
Kenneth R. McBean	
Andrew K. W. Powell	50,000
Alan Roberts	12,500

Each option award vests over four years, with 25% vesting on the one-year anniversary of the grant date and the remaining 75% vesting in 36 equal monthly installments, subject to the executive's continued employment with us.

*Stock Ownership and Retention Guidelines*

Although we encourage our executive officers and directors to hold stock in our company to better align their interests with those of our stockholders, we do not currently have in place any formal stock ownership or retention guidelines. However, we provide equity awards to each of our executive officers and directors, and each of these equity awards contains vesting provisions that prevent such persons from disposing of these shares until these conditions are satisfied. In addition, our insider trading policy prohibits our executive officers and directors, as well as certain of their family members and all entities controlled by them, from engaging in short sales of our securities or puts and purchases or sales of puts or calls for speculative purposes. We believe that these provisions are currently sufficient to promote equity ownership in our company by our executive officers and directors and to help align their interests with those of our stockholders.

*Other Elements of Compensation*

We primarily compensate our named executive officers through base salaries, annual bonuses and annual stock option grants. In addition, our Compensation Committee has determined that it is appropriate to provide our named executive officers the same broad-based benefits as our other employees, a limited amount of perquisites and certain protections in the event of the termination of the named executive officer's employment with us and/or in connection with a change in control.

*Broad-based benefits*

Our named executive officers, like other employees, are entitled to participate in our employee benefit plans, including medical insurance, dental insurance, vision insurance, life insurance, long-term disability insurance and a 401(k) savings plan, including Company matching contributions. In addition, our named executive officers, unlike other employees, are not required to make any payments or other contributions to participate in our medical insurance, dental insurance or vision insurance plans. Our Compensation Committee has determined that it is appropriate to provide medical, dental and vision insurance at no cost to our named executive officers as part of our compensation package to help us attract and retain superior talent and to encourage our named executive officers to utilize these programs.

## **Table of Contents**

### *Perquisites*

We have provided limited perquisites to our named executive officers as a means of providing additional compensation to them, through the availability of benefits that are convenient for the executives to use when faced with the demands of their positions. During 2011, these perquisites included the use of company cars or automobile allowances, and in the case of Mr. Collard and Mr. Lutz, country club memberships. Because our Compensation Committee has determined that the payment of perquisites generally does not fit our pay-for-performance model, it only represents a relatively small part of our overall compensation package. Accordingly, our Compensation Committee only approves the payment of perquisites in limited circumstances after consideration of business needs. Our Compensation Committee periodically reviews these arrangements to ensure they continue to fulfill our business needs.

### *Executive Employment Agreements*

We have entered into employment agreements with each of our named executive officers. The form of these agreements was negotiated in connection with our transaction with Chiesi. In light of the competitive industry in which we operate, combined with our majority ownership by Chiesi, our Compensation Committee believes that these employment agreements are necessary for us to attract and retain the talent necessary to lead our company. We also believe that our executive employment agreements help focus our executive officers on performance and enhancing stockholder value.

Our executive employment agreements provide benefits in connection with certain terminations of employment and certain changes of control. These provisions are discussed more fully in *Potential Payments Upon Termination and Change in Control Employment Agreements* below. In general, if we terminate a named executive officer without cause, or if the named executive officer resigns with good reason, the officer is entitled to cash severance, continuation of healthcare benefits and acceleration of vesting of his outstanding equity awards by one year. If such without cause or good reason termination occurs three months before or three months after a change of control, the executive officer's equity will become 100% vested.

In addition, if we experience a change of control, we provide our named executive officers with immediate acceleration of their equity. We believe that accelerating the vesting of outstanding equity awards is appropriate because, depending on the structure of the transaction, the continuation of such awards may unnecessarily complicate a potentially beneficial transaction. It may not be possible to replace these awards with comparable awards of the acquiring company's stock, and we believe that it would not be fair to our executives to lose the benefit of these outstanding awards. The acceleration of such awards may allow the executive to exercise the awards and possibly participate in the change in control transaction for the shares received. We believe that our change of control benefits promote the stability and retention of our named executive officers in the event of a potential change of control and assist them in being able to react neutrally and not be influenced by personal financial concerns. In addition, the acceleration of vesting aligns the interests of executives in a potential change of control transaction with those of our stockholders, by motivating them to work towards the completion of the transaction.

## **Tax and Accounting Considerations**

### *Tax Deductibility of Compensation Expense*

Under Section 162(m) of the Internal Revenue Code of 1986, as amended, a publicly held corporation such as ours will generally not be allowed a federal income tax deduction for otherwise deductible compensation paid to our named executive officers to the extent that compensation paid to a particular officer is not performance-based and exceeds \$1 million in any fiscal year. However, qualifying performance-based compensation, including compensation attributable to the issuance or exercise of equity incentives, such as nonstatutory stock options, will not be subject to the deductibility limitation if certain conditions are met.

## **Table of Contents**

The base salaries, cash bonuses and certain equity incentive components of our executive compensation program (e.g., any service-based restricted stock awards that we make) generally do not constitute qualifying performance-based compensation for purposes of Section 162(m). However, given that the annual non-performance-based compensation of our named executive officers is below \$1 million per year, Section 162(m) does not have a significant impact on our Compensation Committee's executive compensation decisions.

### ***Accounting Considerations***

Our Compensation Committee also considers the accounting and cash flow implications of various forms of executive compensation. In our financial statements, we record salaries and bonuses as expenses in the amount paid or to be paid to our named executive officers. Accounting rules also require us to record an expense in our financial statements for equity awards, even though equity awards are not paid as cash to employees. The accounting expense of equity awards to employees is calculated in accordance with GAAP. Under GAAP, stock-based compensation expense is measured at the grant date based on the fair value of the award and is generally recognized on a straight-line basis over the vesting period. Our Compensation Committee believes that the many advantages of equity compensation, as discussed above, more than compensate for the non-cash accounting expense associated with it.

### **Executive Incentive Compensation Recovery ( Clawback ) Policy**

Our Board of Directors adopted an Executive Incentive Compensation Recovery ( Clawback ) Policy, effective as of March 2, 2011, pursuant to which, in the event that noncompliance with applicable financial reporting requirements results in a material restatement of our financial statements, we will have the right to recover from an executive officer any portion of cash or equity incentive compensation awards granted after January 1, 2011 in excess of what should have been paid or awarded. We will implement this policy in accordance with the rules of the SEC, as they are promulgated.

### **Risk Management**

Our Compensation Committee endeavors to design our compensation programs to help ensure that these programs do not encourage our executive officers to take unnecessary and excessive risks that could harm our long-term value. We believe that the following components of our executive compensation program, which are discussed more fully below, discourage our executive officers from taking unnecessary or excessive risks:

Base salaries and benefits are sufficiently competitive and not subject to performance risk.

Individual and corporate goals for our executive officers are generally designed to be achievable with sustained and focused effort.

Stock option awards begin vesting no earlier than one year from the date of grant and only have value if our share price increases, thus aligning our executives' interests with the interests of our stockholders.

Our clawback policy allows us to seek recovery of certain compensation from our executive officers in the event of accounting restatement caused by our material noncompliance with applicable financial reporting requirements. Our Compensation Committee annually reviews our executive compensation programs to ensure that they do not encourage excess risk-taking.

**Table of Contents**

**Compensation Committee Report**

The Compensation Committee has reviewed and discussed with management the Compensation Discussion and Analysis section of this Proxy Statement. Based on the review and discussions, the Compensation Committee recommended to the Company's Board of Directors, and the Board of Directors has approved, the inclusion of the Compensation Discussion and Analysis in this Proxy Statement.

COMPENSATION COMMITTEE

Michael Heffernan (Chair)

Christopher Codeanne

Michael Enright

**Compensation Program Risk Assessment**

During 2011, we conducted a risk assessment of our compensation policies and practices for all of our employees (not just our executive officers). Based on this review, we concluded that risks arising from our compensation policies and practices for our employees are not reasonably likely to have a material adverse effect on us. Our risk assessment included a review of program policies and practices; program analysis to identify risk and risk control related to the programs; and determinations as to the sufficiency of risk identification, the balance of potential risk to potential reward, risk control and the support of the programs and their risks to company strategy. Although we reviewed all compensation programs, we focused on the programs with variability of payout (e.g., bonus plans and sales commissions), with the ability of a participant to directly affect payout and the controls on participant action and payout. As part of our review, we specifically noted the following factors that reduce the likelihood that excessive risk taking would have a material adverse effect on us: (i) a strong internal control structure, (ii) payment to our employees of competitive base salaries and benefits that are not subject to performance risk, (iii) performance bonuses that are not based on preset formulas but are in the discretion of our Compensation Committee and (iv) short-term incentive compensation that is counterbalanced with long-term incentive compensation.

**Table of Contents****Summary Compensation Table**

The following table sets forth information for the fiscal years ended December 31, 2011, 2010 and 2009 regarding the compensation of our named executive officers.

<b>Name and Principal Position</b>	<b>Year</b>	<b>Salary (\$)</b>	<b>Bonus \$(1)</b>	<b>Stock Awards \$(2)</b>	<b>Option Awards \$(2)</b>	<b>All Other Compensation (\$)</b>	<b>Total (\$)</b>
Craig A. Collard	2011	400,000	285,000		323,456	95,047(3)	1,103,503
<i>Chief Executive Officer, President (from November 2008 through September 2011) and Interim Financial Officer (from July 2010 through January 2011)</i>	2010	400,000	285,000		683,280	100,793	1,469,073
	2009	394,784	197,392		217,828	114,042	924,046
Vincent T. Morgus	2011	256,500	89,775	323,400	266,420	16,051(4)	952,146
<i>Executive Vice President, Finance and Chief Financial Officer</i>							
Kenneth R. McBean	2011	85,711	38,940	356,000	340,013	12,913(5)	833,577
<i>President</i>							
Andrew K. W. Powell	2011	275,000	96,250		170,240	14,259(6)	555,749
<i>Executive Vice President, General Counsel and Secretary</i>	2010	275,000	112,292			26,806	414,098
Alan Roberts	2011	231,750	20,278		144,704	24,072(7)	420,804
<i>Vice President, Scientific Affairs</i>	2010	231,750	68,946		170,820	32,359	503,875
	2009	139,327	78,750	496,300	286,475	12,640	1,013,492
Steven M. Lutz	2011	213,210			170,240	326,843(8)	710,293
<i>Former Executive Vice President, Manufacturing and Trade</i>	2010	267,800	107,120		145,197	37,008	557,125

- (1) Annual bonuses for 2011 reflected in this column are described in the section Compensation Discussion and Analysis Annual Performance-Based Cash Incentive Compensation.
- (2) The amounts in these columns reflect the aggregate grant date fair value of awards granted during the year computed in accordance with Financial Accounting Standards Board ASC Topic 718, Compensation Stock Compensation. The assumptions made in determining the fair values of our stock and option awards are set forth in Note 8 to our 2011 Consolidated Financial Statements and in the Critical Accounting Policies and Estimates section of our Management's Discussion and Analysis, each of which is included in our Annual Report on Form 10-K for the year ended December 31, 2011 filed with the SEC on March 6, 2012.
- (3) Represents \$27,659 in automobile related payments for company car for personal use, \$30,112 in country club membership payments, \$3,692 for President's Club, \$4,059 in additional payments for employee benefits and \$29,525 for tax gross-ups.
- (4) Represents \$10,666 in automobile related payments, \$3,721 in additional payments for employee benefits and \$1,664 for tax gross-ups.
- (5) Represents \$8,687 in automobile related payments, \$1,015 in additional payments for employee benefits and \$3,211 for tax gross-ups.
- (6) Represents \$10,200 in automobile related payments and \$4,059 in additional payments for employee benefits.

- (7) Represents \$14,792 in automobile related payments, \$4,059 in additional payments for employee benefits and \$5,221 for tax gross-ups.

**Table of Contents**

- (8) Represents \$18,191 in automobile related payments for company car for personal use, \$8,047 in country club membership payments, \$4,255 for President's Club, \$13,901 in additional payments for employee benefits, \$267,800 in severance and \$14,649 for tax gross-ups.

**Grants of Plan-Based Awards in Fiscal 2011**

The table below summarizes the material terms of each equity award made to our named executive officers during the fiscal year ended December 31, 2011:

Name	Grant Date	Option Awards		Stock Awards	
		Number of Securities Underlying Options(1)	Option Exercise Price	Number of Shares of Stock Awarded(2)	Grant Date Fair Value
Craig A. Collard	3/2/2011	95,000	\$ 5.25		\$ 323,456
Vincent T. Morgus	2/1/2011	70,000	\$ 5.88	55,000	\$ 589,820
Kenneth R. McBean	9/6/2011	75,000	\$ 7.12	50,000	\$ 696,013
Andrew K. W. Powell	3/2/2011	50,000	\$ 5.25		\$ 170,240
Alan Roberts	3/2/2011	42,500	\$ 5.25		\$ 144,704
Steven M. Lutz(3)	3/2/2011	50,000	\$ 5.25		\$ 170,240

- (1) The option awards reflected in these columns will vest 25% on the first anniversary of the date of the grant and approximately 2.08% monthly thereafter. The options expire 10 years from the grant date.
- (2) The vesting schedule for restricted stock awards is 25% on the first anniversary of the grant date and 6.3% on randomly determined day in each of the next 11 calendar quarters with the remainder of total award vesting on fourth anniversary of the grant date.
- (3) Effective September 30, 2011, 31,250 of Mr. Lutz's option awards were forfeited when he resigned.

**Outstanding Equity Awards at Fiscal Year-End 2011**

The following table sets forth information regarding unexercised stock options and restricted stock that has not vested for each of our named executive officers outstanding as of December 31, 2011.

Name	Grant Date	Option Awards(1)			Stock Awards	
		Number of Securities Underlying Unexercised Options (#)	Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$/Sh)(2)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)
Craig A. Collard	1/17/06	11,904		\$ 0.43	8/1/2015	
	3/16/07	238,083		\$ 1.77	3/16/2017	
	10/31/08	35,712		\$ 3.90	10/31/2018	
	5/28/09	32,291	17,709	\$ 7.09	5/27/2019	
	3/3/10	87,500	112,500	\$ 5.26	3/2/2020	
	3/2/11		95,000	\$ 5.25	3/1/2021	

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Vincent T. Morgus	2/1/11	70,000	\$ 5.88	1/31/2021		
	2/1/11				55,000(3)	308,000
Kenneth R. McBean	9/6/11	75,000	\$ 7.12	9/5/2021		
	9/6/11				50,000(4)	280,000



**Table of Contents**

Name	Grant Date	Option Awards(1)				Stock Awards	
		Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$/Sh)(2)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)
Andrew K. W. Powell	3/2/11		50,000	\$ 5.25	3/1/2021		
	10/30/09					54,780(5)	306,768
Alan Roberts	7/28/09	30,208	19,792	\$ 9.30	7/27/2019		
	3/3/10	21,875	28,125	\$ 5.26	3/2/2020		
	3/2/11		42,500	\$ 5.25	3/1/2021		
	5/28/09					35,000(6)(7)	196,000
Steven M. Lutz	7/1/05	5,952		\$ 1.06	7/1/2015		
	2/23/06	35,712		\$ 0.43	2/23/2016		
	3/16/07	178,562		\$ 1.77	3/16/2017		
	10/31/08	23,808		\$ 3.90	10/31/2018		
	5/28/09	20,833		\$ 7.09	5/27/2019		
	3/3/10	26,563		\$ 5.26	3/2/2020		
	3/2/11	18,750		\$ 5.25	3/1/2021		

- (1) Option awards granted on or before October 31, 2008 were fully vested as of December 31, 2010. Option awards granted on or after May 28, 2009 vest 25% on the first anniversary of the date of the grant and approximately 2.08% monthly thereafter.
- (2) All option awards are granted with exercise prices equal to the fair market value of our common stock on the grant date. The option awards granted by Cornerstone BioPharma prior to the date of the Merger were based on Cornerstone BioPharma's per share fair market value as determined by Cornerstone BioPharma's Board of Directors. The option awards Cornerstone BioPharma granted on the date of the Merger were based on the closing price per share of our common stock reported by NASDAQ. Following the Merger, the exercise prices of all option awards we have granted equal the closing price per share of our common stock reported by NASDAQ on the grant date.
- (3) The vesting schedule for this restricted stock award is 25% on each on the first anniversary of the grant date and approximately 6.3% on a day to be randomly determined in each of the next 11 calendar quarters (provided that in no event shall the days so chosen in two consecutive quarters be less than 60 days apart from each other). The grant date for the award was February 1, 2011.
- (4) The vesting schedule for this restricted stock award is 25% on each on the first anniversary of the grant date and approximately 6.3% on a day to be randomly determined in each of the next 11 calendar quarters (provided that in no event shall the days so chosen in two consecutive quarters be less than 60 days apart from each other). The grant date for the award was September 6, 2011.
- (5) The vesting schedule for this restricted stock award is 25% on each on the first anniversary of the grant date and approximately 6.3% on a day to be randomly determined in each of the next 11 calendar quarters (provided that in no event shall the days so chosen in two consecutive quarters be less than 60 days apart from each other). The grant date for the award was October 30, 2009.
- (6) The vesting schedule for this restricted stock award is 25% on each of the first four anniversaries of the grant date. The grant date for the award was May 28, 2009.

- (7) Immediately following our transaction with Chiesi in July 2009, 25% of this restricted stock award immediately vested. The remaining 75% will vest according to the original vesting schedule.

**Table of Contents****Option Exercises and Stock Vested in Fiscal 2011**

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
Craig A. Collard				
Vincent T. Morgus				
Kenneth R. McBean				
Andrew K. W. Powell			27,720	183,400
Alan Roberts			17,500	133,875
Steven M. Lutz				

***Potential Payments Upon Termination and Change in Control*****Employment Agreements**

We have entered into employment agreements with each of our named executive officers that provide that each of our named executive officers is (or was) entitled to minimum annual base salary; consideration for a discretionary target annual bonus specified as a percentage of the executive officer's base salary; car allowance or reimbursement; certain health, retirement and other benefits; and severance. The discretionary target annual bonus amounts are (or were) 50% for Mr. Collard, 40% for Mr. Lutz and Mr. McBean and 35% for our other named executive officers. In addition, the employment agreement for Mr. Roberts provides for target annual awards of options to purchase 50,000 shares of our common stock, in the discretion of the Compensation Committee, in each of 2010, 2011 and 2012.

Each of the employment agreements with our named executive officers provides (or provided) that the named executive officer may not compete with us during the term of his employment and, if his employment is terminated, for certain periods following termination. For Mr. Collard, the noncompetition period continues for (i) one and a half years following a termination without Cause or for Good Reason and not during a Change of Control Period, (ii) two years following a termination without Cause or for Good Reason during a Change of Control Period and (iii) one year following a termination under any other circumstances. The noncompetition period for each of our other named executive officers extends for one year following termination in all circumstances.

The employment agreements also prohibit each of our named executive officers from soliciting, among others, our employees and customers during the term of his employment and for one year following the termination of his employment. Each employment agreement also contains customary provisions relating to confidentiality, proprietary information and non-disparagement and provides that upon a Change of Control 100% of the named executive officer's unvested stock options and restricted stock vest, regardless of whether his employment is terminated.

If we terminate a named executive officer's employment without Cause or if the named executive officer terminates his employment for Good Reason and such termination is not during a Change of Control Period, and if the executive officer executes a release and settlement agreement in a form acceptable to us, he will be entitled to:

a lump sum payment equal to one times (1.5 times in the case of Mr. Collard) his annualized base salary;

continuation of benefits for the shorter of 12 months or until he is eligible for other employer-sponsored health coverage;

a lump sum payment in an amount equal to a pro rata payment of his target cash bonus; and

accelerated vesting of all of his outstanding unvested stock options and restricted stock by one year.



## Table of Contents

With respect to Mr. Morgus and Mr. McBean, however, if we had provided (in the case of Mr. Morgus) or if we provide (in the case of Mr. McBean) notice of termination without Cause prior to the first anniversary of the effective date of the executive's employment agreement, the above provisions would be inapplicable.

If we terminate a named executive officer's employment without Cause or if the named executive officer terminates his employment for Good Reason and such termination is during a Change in Control Period, and if the named executive officer executes a release and settlement agreement in a form acceptable to us, he will be entitled to:

a lump sum payment equal to one times his annualized base salary (two times his highest annualized base salary during the three-year period prior to the Change in Control in the case of Mr. Collard);

continuation of benefits for the shorter of 12 months (24 months in the case of Mr. Collard) or until he is eligible for other employer-sponsored health coverage;

a lump sum payment in an amount equal to a pro rata payment of his target cash bonus (the annual bonus paid or payable for the most recently completed fiscal year in the case of Mr. Collard); and

accelerated vesting of 100% of his outstanding unvested stock options and restricted stock.

If Mr. Collard's employment is terminated due to his death, then his estate will receive a lump sum payment in an amount equal to a pro rata payment of the annual cash bonus, if any, paid to him in the year prior to his death. For all other named executive officers, if terminated due to their death, the named executive officer's estate will receive a lump sum payment in an amount equal to a pro rata payment of the annual cash bonus for which such named executive officer would have been eligible.

Upon termination of Mr. Collard's employment, we will pay or reimburse Mr. Collard for the balance of the remaining lease payments on the vehicle provided by us for his use, and will assign and transfer title and other appropriate evidence of ownership of the vehicle to him in exchange for \$100.

For purposes of each of the employment agreements with our named executive officers, the terms below have the following meanings:

Cause means:

use of alcohol or narcotics which proximately results in the willful material breach or habitual willful neglect of duties;

criminal conviction of fraud, embezzlement, misappropriation of assets, or conviction of any felony or certain other serious crimes, but in no event traffic or similar violations;

any act constituting willful misconduct which is materially detrimental to our best interests, including but not limited to misappropriation of, or intentional damage to, our funds, property or business;

a material violation of our policies, including but not limited to violations of our policies prohibiting harassment or discrimination; or

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willful breach of the employment agreement, if such willful breach is not cured within thirty (30) days after our written notice thereof specifying the nature of such willful material breach.

Good Reason means:

a material reduction in the annual base compensation (but exclusive of any target cash bonus, annual equity award or other similar cash bonus or equity plans for this purpose);

relocation of the place of business at which the named executive officer is principally located to a location that is greater than thirty (30) miles from its current location;

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**Table of Contents**

our failure to comply with a material term of the named executive officer's employment agreement; or

a material reduction in the named executive officer's level of responsibility to that which is not consistent with the position held by the named executive officer.

In addition, Mr. Morgus's and Mr. McBean's executive employment agreements further provide that "Good Reason" exists if (i) our shares cease to be publicly traded at a time when Chiesi and its affiliates do not own at least 50% of our outstanding shares or (ii) our shares are delisted from or by NASDAQ at a time when Chiesi and its affiliates do not own at least 50% of our outstanding shares.

Change of Control means:

an acquisition of beneficial ownership of our capital stock by any one person or group (other than, in the case of Mr. Morgus and Mr. McBean, Chiesi or its affiliates) if, following such acquisition, such person or group has 50% or more of the combined voting power of our then-outstanding securities entitled to vote generally in the election of directors;

such time as the Continuing Directors (as defined below) do not constitute a majority of our Board of Directors, where the term "Continuing Director" means at any date a member of the Board of Directors (i) who was a member of the Board of Directors on the date of the initial adoption of the Employment Agreement by the Board of Directors or (ii) who was nominated or elected subsequent to such date by at least a majority of the directors who were Continuing Directors at the time of such nomination or election or whose election to the Board of Directors was recommended or endorsed by at least a majority of the directors who were Continuing Directors at the time of such nomination or election; provided, however, that (x) there shall be excluded from clause (i) any individual whose initial assumption of office occurred as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents, by or on behalf of a person other than the Board of Directors and (y) with respect to Mr. Morgus and Mr. McBean, changes in board composition initiated by Chiesi or its affiliates do not constitute a Change of Control;

the consummation of a merger, consolidation, reorganization, recapitalization or share exchange involving us or a sale or other disposition of all or substantially all of our assets unless, immediately following such transaction (i) all or substantially all of the individuals and entities who were the beneficial owners of the outstanding voting securities immediately prior to such transaction beneficially own, directly or indirectly, more than 50% of the combined voting power of the then-outstanding securities entitled to vote generally in the election of directors, respectively, of the resulting or acquiring corporation in such transaction in substantially the same proportions as their ownership of the outstanding voting securities immediately prior to such transaction and (ii) no person beneficially owns, directly or indirectly, 50% or more of the combined voting power of the then-outstanding securities of such corporation entitled to vote generally in the election of directors (except to the extent that such ownership existed prior to such transaction); or

our liquidation or dissolution.

Change of Control Period means the period from three (3) months before until three (3) months after the date on which a Change of Control occurs.

***Payments Upon Termination or Change of Control***

The following table summarizes the estimated amounts payable to each named executive officer, other than Mr. Lutz, in the event of a termination of employment or change of control, or both. These estimates are based on the assumption that the various triggering events occurred on December 30, 2011, the last business day of fiscal 2011. In September 2011, Mr. Lutz left our company to pursue other opportunities. In connection with the termination of his employment, Mr. Lutz received the following severance benefits: (i) a lump sum payment in an amount equal to his current annual base salary and a pro rata portion of his target cash bonus for 2011,

**Table of Contents**

(ii) monthly payments in the amount of 100% of the monthly COBRA premiums for continued health and dental coverage for him and his dependents and 100% of the amount of the monthly premiums paid by our company for life insurance and disability insurance for him until the earlier of one year after his last day of employment or the last day of the first month when he is eligible for other employer-sponsored health coverage; and (iii) accelerated vesting of his outstanding unvested stock options by one year.

Name	Triggering Event	Severance	Bonus	Equity	Health(1)	Other(2)	Total
Craig A. Collard	Voluntary/For Cause/Disability	\$	\$	\$	\$	\$	\$
	Death	\$	\$ 300,000	\$	\$	\$	\$ 300,000
	Without Cause/For Good Reason (not in Change of Control Period)	\$ 600,000	\$ 300,000	\$ 31,547	\$ 17,251	\$ 44,463	\$ 993,261
	Without Cause/For Good Reason (in Change of Control Period)	\$ 800,000	\$ 285,000	\$ 71,500	\$ 34,501	\$ 47,119	\$ 1,238,120
	Change of Control						
	(no termination)	\$	\$	\$ 71,500	\$	\$	\$ 71,500
Vincent T. Morgus	Voluntary/For						
	Cause/Disability/Without Cause						
	during first year of employment						
	(other than in connection with a						
Change of Control)	\$	\$	\$	\$	\$	\$	
Death	\$	\$ 99,750	\$	\$	\$	\$ 99,750	
Without Cause/For Good Reason (not in Change of Control Period)	\$ 285,000	\$ 99,750	\$ 135,212	\$ 17,251	\$ 1,893	\$ 539,106	
Without Cause/For Good Reason (in Change of Control Period)	\$ 285,000	\$ 99,750	\$ 308,000	\$ 17,251	\$ 1,893	\$ 711,894	
	Change of Control						
	(no termination)	\$	\$	\$ 308,000	\$	\$	\$ 308,000
Kenneth R. McBean	Voluntary/For						
	Cause/Disability/Without Cause						
	during first year of employment						
	(other than in connection with a						
Change of Control)	\$	\$	\$	\$	\$	\$	
Death	\$	\$ 118,000	\$	\$	\$	\$ 118,000	
Without Cause/For Good Reason (not in Change of Control Period)	\$ 295,000	\$ 118,000	\$ 87,640	\$ 17,251	\$ 1,959	\$ 519,850	
Without Cause/For Good Reason (in Change of Control Period)	\$ 295,000	\$ 118,000	\$ 280,000	\$ 17,251	\$ 1,959	\$ 712,210	
	Change of Control						
	(no termination)	\$	\$	\$ 280,000	\$	\$	\$ 280,000
Andrew K. W. Powell	Voluntary/For Cause/Disability	\$	\$	\$	\$	\$	\$
	Death	\$	\$ 98,175	\$	\$	\$	\$ 98,175
	Without Cause/For Good Reason (not in Change of Control Period)	\$ 280,500	\$ 98,175	\$ 162,888	\$ 17,251	\$ 1,863	\$ 560,677
	Without Cause/For Good Reason (in Change of Control Period)	\$ 280,500	\$ 98,175	\$ 324,268	\$ 17,251	\$ 1,863	\$ 722,057
	Change of Control						
	(no termination)	\$	\$	\$ 324,268	\$	\$	\$ 324,268
Alan Roberts	Voluntary/For Cause/Disability	\$	\$	\$	\$	\$	\$
	Death	\$	\$ 81,113	\$	\$	\$	\$ 81,113
		\$ 231,750	\$ 81,113	\$ 108,758	\$ 17,251	\$ 1,539	\$ 440,411



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Without Cause/For Good Reason (not in Change of Control Period)						
Without Cause/For Good Reason (in Change of Control Period)	\$ 231,750	\$ 81,113	\$ 220,438	\$ 17,251	\$ 1,539	\$ 552,090
Change of Control						
(no termination)	\$	\$	\$ 220,438	\$	\$	\$ 220,438

- (1) Represents the cost of healthcare continuation that we would pay during the severance period. Amounts are based on the cost of continuing coverage under the Consolidated Omnibus Budget Reconciliation Act, as amended ( COBRA ). The expenses are based on the coverage and premium rates in force on December 31, 2011.

**Table of Contents**

- (2) Represents life and disability insurance premiums for 12 months for each named executive officer, except that in the case of Mr. Collard, it represents life and disability insurance premiums for 24 months if terminated without cause or for good reason during a change of control period. In addition, Mr. Collard's amount includes \$41,906 representing the balance of the remaining lease payments on the vehicle provided by us for his use.

**Director Compensation**

We use fees and option awards to attract and retain qualified candidates to serve on our Board of Directors. In setting director compensation, we consider both the significant amount of time directors expend in fulfilling their duties to us and the skill level required to be a director.

**Director Compensation for Fiscal 2011**

The table below summarizes the compensation we paid our directors for the fiscal year ended December 31, 2011.

Name(1)	Fees Earned		Total (\$)
	or Paid in Cash (\$)	Option Awards \$(2)	
Alessandro Chiesi(3)	41,000	69,278	110,278
Christopher Codeanne(4)	55,000	69,278	124,278
Michael Enright(4)	50,000	69,278	119,278
Anton Giorgio Failla(3)	42,000	69,278	111,278
James Harper(5)	3,500	71,308	74,808
Michael Heffernan(6)	52,500	69,278	121,778
Robert Stephan(3)	45,000	69,278	114,278
Marco Vecchia(3)	42,000	69,278	111,278

- (1) Craig A. Collard, our Chief Executive Officer, is a director but receives no additional compensation for his services as a director. The compensation received by Mr. Collard as our President (through September) and Chief Executive Officer in 2011 is shown in the Summary Compensation Table.
- (2) The amounts in this column reflect the aggregate grant date fair value of stock option awards granted during the year computed in accordance with Financial Accounting Standards Board ASC Topic 718, Compensation – Stock Compensation. The assumptions made in determining the fair values of our option awards are set forth in Note 8 to our 2011 Consolidated Financial Statements and in the Critical Accounting Policies and Estimates section of our Management's Discussion and Analysis, each of which included in our Annual Report on Form 10-K for the year ended December 31, 2011 filed with the SEC on March 6, 2012.
- (3) Option awards consist of one grant for 15,000 shares made on May 18, 2011 with a grant date fair value of \$69,278. No option awards have been forfeited and there were 37,500 aggregate shares underlying outstanding option awards as of December 31, 2011.
- (4) Option awards consist of one grant for 15,000 shares made on May 18, 2011 with a grant date fair value of \$69,278. No option awards have been forfeited and there were 45,833 aggregate shares underlying outstanding option awards as of December 31, 2011.
- (5) Option awards consist of one grant for 20,000 shares made on December 1, 2011 with a grant date fair value of \$71,308. No option awards have been forfeited and there were 20,000 aggregate shares underlying outstanding option awards as of December 31, 2011.
- (6)

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Option awards consist of one grant for 15,000 shares made on May 18, 2011 with a grant date fair value of \$69,278. No option awards have been forfeited and there were 49,404 aggregate shares underlying outstanding option awards as of December 31, 2011.

## **Table of Contents**

Our Board of Directors has approved a Non-Employee Director Compensation and Reimbursement Policy, or the Director Compensation Policy, which applies to all non-employee directors, with effect from their date of election or appointment. The Director Compensation Policy provides that each non-employee member of our Board of Directors is eligible to receive the following:

A \$30,000 annual retainer, payable in installments of \$7,500 quarterly in arrears; and

Up to an annual aggregate maximum of \$15,000 for attendance fees for the following:

ι \$2,000 for each meeting of the Board of Directors that the director attends in person;

ι \$1,000 for each meeting of any board committee on which the director serves that the director attends in person;

ι \$1,000 for each meeting of the Board of Directors that the director attends by teleconference; and

ι \$500 for each meeting of any board committee on which the director serves that the director attends by teleconference.

The annual fee for the lead independent director, if any, is \$10,000, the annual fee for the chair of the Audit Committee is \$10,000, the annual fee for the chair of the Compensation Committee is \$7,500, and the annual fee for the chair of the Nominating and Corporate Governance Committee is \$5,000.

Under the Director Compensation Policy, each non-employee director will receive an option to purchase up to 20,000 shares of our common stock upon his or her initial election to our Board of Directors and an option to purchase up to 15,000 shares of our common stock at each year's annual meeting after which he or she continues to serve as a director. The shares subject to options granted upon initial election will become exercisable in 36 equal monthly installments beginning one month from the date of grant, and the shares subject to options granted upon re-election will become exercisable in 12 equal monthly installments beginning one month from the date of grant.

We reimburse each non-employee director for reasonable travel and other expenses incurred in connection with attending meetings of the Board of Directors and its committees. We pay all reasonable expenses related to continuing director education. However, we pay only a pro rata portion of education expenses for our non-employee directors who serve on any additional public company boards.

## **Securities Authorized for Issuance Under Equity Compensation Plans**

The following table sets forth information as of December 31, 2011 regarding securities authorized for issuance under our equity compensation plans, consisting of our 2004 Stock Incentive Plan, our 2003 Stock Incentive Plan, the 2005 Cornerstone BioPharma Holdings, Inc. Stock Incentive Plan, or the 2005 Stock Incentive Plan, and the Cornerstone BioPharma Holdings, Inc. 2005 Stock Option Plan, or the 2005 Stock Option Plan. All of our equity compensation plans were approved by our stockholders, except that the 2005 Stock Incentive Plan and the 2005 Stock Option Plan were approved by Cornerstone BioPharma's stockholders prior to the Merger. In connection with the Merger, we assumed each outstanding option, whether vested or unvested, to purchase Cornerstone BioPharma's common stock, and these options became options to purchase our common stock. We assumed the 2005 Stock Incentive Plan and the 2005 Stock Option Plan on the same terms and conditions as were applicable under those plans immediately prior to the effective time of Merger.

**Table of Contents****Equity Compensation Plan Information**

<b>Plan Category</b>	<b>Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)</b>	<b>Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)</b>	<b>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))(1) (c)</b>
Equity compensation plans approved by stockholders	2,552,847	\$ 4.82	1,052,209
Equity compensation plans not approved by stockholders			
<b>Total</b>	<b>2,552,847</b>	<b>\$ 4.82</b>	<b>1,052,209</b>

- (1) In addition to being available for future issuance upon exercise of stock options that may be granted after December 31, 2011, our 2004 Stock Incentive Plan provides for the issuance of restricted stock awards and other stock-based awards.

**Compensation Committee Interlocks and Insider Participation**

The Compensation Committee of our Board of Directors consists of Mr. Heffernan, Mr. Codeanne and Mr. Enright. Mr. Heffernan is the chairman of the Compensation Committee. No member of the Compensation Committee was at any time during the fiscal year ended December 31, 2011, or formerly, an officer or employee of Cornerstone Therapeutics or any subsidiary of Cornerstone Therapeutics, nor has any member of the Compensation Committee had any relationship with us during the fiscal year ended December 31, 2011 requiring disclosure under Item 404 of Regulation S-K under the Exchange Act.

None of our executive officers has served as a director or member of the compensation committee (or other committee serving an equivalent function) of any other entity, one of whose executive officers served as a director or member of the Compensation Committee.

**OTHER MATTERS**

Our Board of Directors has no knowledge of any other matters which may come before the meeting. However, if any other matters are properly presented to the meeting, the persons named in the accompanying proxy will vote the shares represented by such proxy on such matters as determined by a majority of our Board of Directors.

**SOLICITATION OF PROXIES**

We will bear the cost of solicitation of proxies. In addition to the solicitation of proxies by mail, our officers and employees may solicit proxies in person or by telephone. We may reimburse brokers or persons holding stock in their names, or in the names of their nominees, for their expenses in sending proxies and proxy material to beneficial owners.

**REVOCATION OF PROXY**

Subject to the terms and conditions set forth in this proxy statement, all proxies received by us will be effective, notwithstanding any transfer of the shares to which those proxies relate, unless prior to the closing of the polls at the annual meeting, we receive a written notice of revocation

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signed by the person who, as of the record date, was the registered holder of those shares. The notice of revocation must indicate the certificate number and numbers of shares to which the revocation relates and the aggregate number of shares represented by the certificate(s). A proxy may also be revoked by a stockholder if the stockholder attends the meeting and votes in person, timely submits another signed proxy card bearing a later date or timely submits new voting instructions over the Internet.

**Table of Contents**

**STOCKHOLDER PROPOSALS**

In order to be included in the proxy materials for our 2013 annual meeting of stockholders, stockholders' proposed resolutions must be received by us at our principal executive offices, Cornerstone Therapeutics Inc., Attn: Corporate Secretary, 1255 Crescent Green Drive, Suite 250, Cary, North Carolina 27518, no later than December 26, 2012. However, if the date of the 2013 annual meeting is changed by more than 30 days from the date of the first anniversary of the 2012 annual meeting, then the deadline is a reasonable time before we begin to print and mail our proxy statement for the 2013 annual meeting. We suggest that proponents submit their proposals by certified mail, return receipt requested.

In addition, our bylaws require that we be given advance notice of stockholder nominations for election to the Board of Directors and of other matters that stockholders wish to present for action at an annual meeting of stockholders, other than matters included in our proxy statement. The required notice must be in writing and received by our corporate secretary at our principal offices in the case of an election of directors at an annual meeting of stockholders, not less than 90 days nor more than 120 days prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is advanced by more than 20 days, or delayed by more than 60 days, from the first anniversary of the preceding year's annual meeting, a stockholder's notice must be so received not earlier than the 120th day prior to such annual meeting and not later than the close of business on the later of (A) the 90th day prior to such annual meeting and (B) the tenth day following the day on which notice of the date of such annual meeting was mailed or public disclosure of the date of such annual meeting was made, whichever first occurs. The date of our 2013 annual meeting of stockholders has not yet been established, but assuming it is held on May 22, 2013, in order to comply with the time periods set forth in our bylaws, appropriate notice for the 2013 annual meeting would need to be provided to our Corporate Secretary no earlier than January 22, 2013 and no later than February 21, 2013.

**DIRECTIONS TO OUR ANNUAL MEETING AT OUR OFFICES**

From Durham, NC or points West, including RDU Airport, please take I-40 East toward Raleigh and then take exit # 293 US-1 S / US-64 W toward Sanford. Take the Tryon Road East exit # 98A and merge onto Tryon Road. At 2<sup>nd</sup> light take right on Crescent Green Drive. 1255 Crescent Green Drive will be on the right. Our office is in the 2<sup>nd</sup> building (behind the main building, which is at 1225 Crescent Green Drive) in Suite 250.

From Raleigh, NC or points East, please take I-40 West toward Durham/Chapel Hill and then take exit # 293 US-1 S / US-64 W toward Sanford. Take the Tryon Road East exit # 98A and merge onto Tryon Road. At 2<sup>nd</sup> light take right on Crescent Green Drive. 1255 Crescent Green Drive will be on the right. Our office is in the 2<sup>nd</sup> building (behind the main building, which is at 1225 Crescent Green Drive) in Suite 250.

**Table of Contents**

If you need additional directions, please call 1-888-466-6505, and we will be glad to direct you to the annual meeting location.

By order of the Board of Directors,

Andrew K. W. Powell, Esq.

*Secretary*

*Cary, North Carolina*

April 25, 2012

**OUR BOARD OF DIRECTORS HOPES THAT STOCKHOLDERS WILL ATTEND THE ANNUAL MEETING. WHETHER OR NOT YOU PLAN TO ATTEND, YOU ARE URGED TO VOTE BY PROXY OVER THE INTERNET OR BY MAIL. A PROMPT RESPONSE WILL GREATLY FACILITATE ARRANGEMENTS FOR THE MEETING AND YOUR COOPERATION WILL BE APPRECIATED. STOCKHOLDERS WHO ATTEND THE MEETING MAY VOTE THEIR STOCK PERSONALLY EVEN THOUGH THEY HAVE SENT IN THEIR PROXY CARDS OR VOTED BY PROXY OVER THE INTERNET.**



**Table of Contents**

Dear Stockholder:

Please take note of the important information enclosed with this proxy card. There are matters related to the operation of Cornerstone Therapeutics Inc. that require your prompt attention. Your vote counts and you are strongly encouraged to exercise your right to vote your shares.

Please mark the boxes on the proxy card to indicate how your shares will be voted. Then sign and date the proxy card and return it in the enclosed postage-paid envelope. Thank you in advance for your prompt consideration of these matters.

Sincerely,

Cornerstone Therapeutics Inc.

**Your vote is important. Please vote immediately.**

ANNUAL MEETING OF STOCKHOLDERS OF  
CORNERSTONE THERAPEUTICS INC.

May 22, 2012

**Please date, sign and mail your proxy card in the envelope provided as soon as possible.**

**PROXY**

**CORNERSTONE THERAPEUTICS INC.**

1255 Crescent Green Drive, Suite 250

Cary, North Carolina 27518

**THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS**

**FOR THE ANNUAL MEETING OF STOCKHOLDERS**

**TO BE HELD ON MAY 22, 2012**

The undersigned, revoking all prior proxies, hereby appoints Craig A. Collard, Vincent T. Morgus and Andrew K. W. Powell as proxies, each with the power to appoint his substitute, and hereby authorizes each of them to represent and vote, as designated on this proxy card, all shares of common stock of Cornerstone Therapeutics Inc. (the Company) held of record by the undersigned on March 30, 2012 at the Annual Meeting of Stockholders to be held on May 22, 2012 at 8:30 a.m. Eastern Daylight Time and any adjournments thereof. The undersigned hereby directs Craig A. Collard, Vincent T. Morgus and Andrew K. W. Powell to vote in accordance with the determination of a majority of the board of directors as to any other matters which may properly come before the Annual Meeting, all as indicated in the Notice of Annual Meeting, receipt of which is hereby acknowledged, and to act on the matters set forth in such Notice as specified by the undersigned.

**THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED AS DIRECTED. IF NO DIRECTION IS GIVEN WITH RESPECT TO PROPOSAL 1 THIS PROXY WILL BE VOTED FOR ALL NOMINEES AND WITH RESPECT TO PROPOSAL 2 THIS PROXY WILL BE VOTED FOR SUCH PROPOSAL. ATTENDANCE OF THE UNDERSIGNED AT THE ANNUAL MEETING OR AT ANY ADJOURNMENT THEREOF WILL NOT BE DEEMED TO REVOKE THE PROXY UNLESS THE UNDERSIGNED REVOKES THIS PROXY IN WRITING.**

**TO VOTE AND APPOINT YOUR PROXY VIA THE INTERNET**

Your Internet vote and appointment of proxy is quick, confidential and your vote is immediately submitted. Just follow these easy steps:

1. Read the accompanying Proxy Statement.
  
2. Visit <https://www.shareholderlink.com/fss/crtx/pxsignon.asp>
  
3. When prompted for your Control Number, enter the 12-digit number printed above your name on the proxy card. Please note that all appointments and votes cast by Internet must be completed and submitted by 5:00 p.m. Eastern Daylight Time on May 21, 2012, which is one day prior to the meeting date. Your Internet vote authorizes the named proxies to vote your shares to the same extent as if you marked, signed, dated and returned the proxy card. You may revoke your Internet appointment by revisiting the above website and changing your vote prior to 5:00 p.m. Eastern Daylight Time on May 21, 2012, or by any method sufficient to revoke an appointment of proxy as set forth above.

This is a secured web page site. Your software and/or Internet provider must be enabled to access this site. Please call your software or Internet provider for further information if needed.

**Table of Contents**

The board of directors unanimously recommends a vote **FOR** proposals 1 and 2.

**1. Election of the following nine (9) nominees as directors of the Company.**

Nominees:

- |                         |                      |
|-------------------------|----------------------|
| 01 Craig A. Collard     | 06 James Harper      |
| 02 Alessandro Chiesi    | 07 Michael Heffernan |
| 03 Christopher Codeanne | 08 Robert M. Stephan |
| 04 Michael Enright      | 09 Marco Vecchia     |
| 05 Anton Giorgio Failla |                      |

**WITHHOLD**

<b>FOR ALL</b>	<b>AUTHORITY FOR</b>	<b>FOR ALL EXCEPT</b>
<b>NOMINEES</b>	<b>ALL NOMINEES</b>	<b>(See Instructions below)</b>

INSTRUCTION: To withhold authority to vote for any individual nominee, mark **FOR ALL EXCEPT** and write the name of the nominee on the line below.

**2. Ratification of the selection by the Audit Committee of Ernst and Young LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2012.**

FOR  AGAINST  ABSTAIN

The proxies are authorized to vote in accordance with the determination of a majority of the board of directors as to any other matters which may properly come before the Annual Meeting or any adjournment thereof.

**PLEASE MARK, SIGN, DATE AND PROMPTLY RETURN THIS PROXY CARD IN THE ENCLOSED ENVELOPE OR FOLLOW THE INSTRUCTIONS ON THE REVERSE TO APPOINT YOUR PROXY VIA THE INTERNET.**

Dated: \_\_\_\_\_, 2012

Signature \_\_\_\_\_ Signature (if held jointly) \_\_\_\_\_  
**Instruction:** Please sign above exactly as your name appears on this appointment of proxy. Joint owners of shares should both sign. Fiduciaries or other persons signing in a representative capacity should indicate the capacity in which they are signing.

Control Number: \_\_\_\_\_ Proxy: \_\_\_\_\_ Shares: \_\_\_\_\_

**IMPORTANT: To ensure that a quorum is present, please send in your appointment of proxy whether or not you plan to attend the annual meeting. Even if you send in your appointment of proxy you will be able to vote in person at the meeting if you so desire.**