

CORNERSTONE THERAPEUTICS INC

Form 10-Q

May 12, 2011

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
**Washington, DC 20549**  
**Form 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the Quarterly Period Ended March 31, 2011**

**or**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the Transition Period From \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number: 000-50767**

**CORNERSTONE THERAPEUTICS INC.**

*(Exact Name of Registrant as Specified in Its Charter)*

**Delaware**

*(State or Other Jurisdiction of  
Incorporation or Organization)*

**04-3523569**

*(I.R.S. Employer  
Identification No.)*

**1255 Crescent Green Drive, Suite 250**

**Cary, North Carolina**

*(Address of Principal Executive Offices)*

**27518**

*(Zip Code)*

**(919) 678-6611**

*(Registrant's Telephone Number, Including Area Code)*

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting  
company

(Do not check if a smaller  
reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes  No

As of May 10, 2011, the registrant had 25,950,804 shares of Common Stock, \$0.001 par value per share, outstanding.



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**PART I FINANCIAL INFORMATION**

**Cautionary Statement Regarding Forward-Looking Statements**

This quarterly report on Form 10-Q includes forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. For this purpose, any statements contained herein, other than statements of historical fact, including statements regarding the progress and timing of our product development programs and related trials; our future opportunities; our strategy, future operations, anticipated financial position, future revenues and projected costs; our management's prospects, plans and objectives; and any other statements about management's future expectations, beliefs, goals, plans or prospects constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We may, in some cases, use words such as anticipate, believe, could, estimate, expect, intend, may, plan, project, should, other words that convey uncertainty of future events or outcomes to identify these forward-looking statements. Actual results may differ materially from those indicated by such forward-looking statements as a result of various important factors, including our critical accounting estimates; our ability to develop and maintain the necessary sales, marketing, supply chain, distribution and manufacturing capabilities to commercialize our products; our ability to replace the revenues from our marketed unapproved products, which we ceased manufacturing and distributing at the end of 2010, and from our propoxyphene products, which we voluntarily withdrew from the U.S. market in November 2010 at the request of the U.S. Food and Drug Administration, or FDA; patient, physician and third-party payor acceptance of our products as safe and effective therapeutic products; our heavy dependence on the commercial success of a relatively small number of currently marketed products; our ability to maintain regulatory approvals to market and sell our products with FDA-approved marketing applications; our ability to obtain FDA approval to market and sell our products under development; our ability to enter into additional strategic licensing, product acquisition, collaboration or co-promotion transactions on favorable terms, if at all; our ability to maintain compliance with NASDAQ listing requirements; adverse side effects experienced by patients taking our products; difficulties relating to clinical trials, including difficulties or delays in the completion of patient enrollment, data collection or data analysis; the results of preclinical studies and clinical trials with respect to our product candidates and whether such results will be indicative of results obtained in later clinical trials; our ability to develop and commercialize our product candidates before our competitors develop and commercialize competing products; our ability to satisfy FDA and other regulatory requirements; and our ability to obtain, maintain and enforce patent and other intellectual property protection for our products and product candidates. These and other risks are described in greater detail in Part I Item 1A. Risk Factors of our annual report on Form 10-K for the year ended December 31, 2010 filed with the Securities and Exchange Commission, or SEC, on March 3, 2011. Any material changes to the risk factors disclosed in the annual report are discussed below in Part II Item 1A. Risk Factors. If one or more of these factors materialize, or if any underlying assumptions prove incorrect, our actual results, performance or achievements may vary materially from any future results, performance or achievements expressed or implied by these forward-looking statements. In addition, any forward-looking statements in this quarterly report on Form 10-Q represent our views only as of the date of this quarterly report on Form 10-Q and should not be relied upon as representing our views as of any subsequent date. We anticipate that subsequent events and developments will cause our views to change. However, while we may elect to update these forward-looking statements publicly at some point in the future, we specifically disclaim any obligation to do so, whether as a result of new information, future events or otherwise. Our forward-looking statements do not reflect the potential impact of any acquisitions, mergers, dispositions, business development transactions, joint ventures or investments we may enter into or make.

**Table of Contents****ITEM 1. FINANCIAL STATEMENTS**

**CORNERSTONE THERAPEUTICS INC.  
CONSOLIDATED BALANCE SHEETS  
(In thousands, except share and per share data)**

|  | <b>March 31,<br/>2011<br/>(Unaudited)</b> | <b>December<br/>31,<br/>2010<br/>(Note 1)</b> |
|--|---|---|
| <b>Assets</b>                                  |   |   |
| Current assets:                                |   |   |
| Cash and cash equivalents                      | \$ 86,078                                 | \$ 50,945                                     |
| Accounts receivable, net                       | 40,170                                    | 76,476  |
| Inventories, net                               | 13,301                                    | 15,174  |
| Prepaid and other current assets               | 4,727                                     | 5,111   |
| Income tax receivable                          |   | 197   |
| Deferred income tax asset                      | 6,003                                     | 6,599   |
| Total current assets                           | 150,279                                   | 154,502                                       |
| Property and equipment, net                    | 1,425                                     | 1,486   |
| Product rights, net                            | 108,733                                   | 112,328                                       |
| Goodwill                                       | 13,231                                    | 13,231  |
| Amounts due from related parties               | 38  | 38  |
| Long-term accounts receivable and other assets | 2,338                                     | 8,553   |
| Total assets                                   | \$ 276,044                                | \$ 290,138                                    |
| <b>Liabilities and Stockholders Equity</b>     |   |   |
| Current liabilities:                           |   |   |
| Accounts payable                               | \$ 8,376                                  | \$ 7,671                                      |
| Accrued expenses                               | 42,979                                    | 46,599  |
| Current portion of license agreement liability | 1,408                                     | 1,368   |
| Current portion of capital lease               | 85  | 83  |
| Current portion of deferred revenue            | 42,034                                    | 37,616  |
| Income taxes payable                           | 224                                       |   |
| Total current liabilities                      | 95,106                                    | 93,337  |
| Capital lease, less current portion            | 124                                       | 146   |
| Deferred revenue, less current portion         | 1,950                                     | 19,578  |
| Deferred income tax liability                  | 4,334                                     | 4,679   |
| Total liabilities                              | 101,514                                   | 117,740                                       |
| Commitments and contingencies, Note 6          |   |   |
| Stockholders equity                            |   |   |

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|  |   |            |            |
|--|---|------------|------------|
| Preferred stock                            | \$0.001 par value, 5,000,000 shares authorized; no shares issued and outstanding  |            |            |
| Common stock                               | \$0.001 par value, 90,000,000 shares authorized; 25,483,224 and 25,472,963 shares issued and outstanding as of March 31, 2011 and December 31, 2010, respectively | 25         | 25         |
| Additional paid-in capital                 |   | 160,496    | 160,106    |
| Retained earnings                          |   | 14,009     | 12,267     |
| Total stockholders' equity                 |   | 174,530    | 172,398    |
| Total liabilities and stockholders' equity |   | \$ 276,044 | \$ 290,138 |

The accompanying notes are an integral part of the consolidated financial statements.

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**CORNERSTONE THERAPEUTICS INC.  
CONSOLIDATED STATEMENTS OF INCOME  
(UNAUDITED)**

**(In thousands, except share and per share data)**

|   | <b>Three Months Ended March</b> |             |
|---|---------------------------------|-------------|
|   | <b>31,</b>                      |             |
|   | <b>2011</b>                     | <b>2010</b> |
| Net revenues  | \$ 29,997                       | \$ 36,406   |
| Costs and expenses:   |                                 |             |
| Cost of product sales (exclusive of amortization of product rights) | 7,537                           | 6,819       |
| Selling, general and administrative                                 | 13,269                          | 12,425      |
| Royalties   | 2,497                           | 4,598       |
| Research and development  | 559                             | 906         |
| Amortization of product rights                                      | 3,595                           | 3,595       |
| Total costs and expenses  | 27,457                          | 28,343      |
| Income from operations  | 2,540                           | 8,063       |
| Other expenses:   |                                 |             |
| Interest expense, net   | (41)                            | (1)         |
| Total other expenses  | (41)                            | (1)         |
| Income before income taxes  | 2,499                           | 8,062       |
| Provision for income taxes  | (757)                           | (3,049)     |
| Net income  | \$ 1,742                        | \$ 5,013    |
| Net income per share, basic   | \$ 0.07                         | \$ 0.20     |
| Net income per share, diluted                                       | \$ 0.07                         | \$ 0.19     |
| Weighted-average common shares, basic                               | 25,479,891                      | 25,349,677  |
| Weighted-average common shares, diluted                             | 26,088,851                      | 25,951,952  |

The accompanying notes are an integral part of the consolidated financial statements.



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**CORNERSTONE THERAPEUTICS INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**  
**(In thousands)**

|   | <b>Three Months Ended March</b> |             |
|---|---------------------------------|-------------|
|   | <b>31,</b>                      |             |
|   | <b>2011</b>                     | <b>2010</b> |
| <b>Cash flows from operating activities</b>                                       |                                 |             |
| Net income  | \$ 1,742                        | \$ 5,013    |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                 |             |
| Amortization and depreciation   | 3,713                           | 3,678       |
| Provision for prompt payment discounts  | 1,067                           | 1,144       |
| Recovery of inventory allowances  | (268)                           | (457)       |
| Stock-based compensation  | 379                             | 280         |
| Benefit from (provision for) deferred income taxes                                | 251                             | (738)       |
| Changes in operating assets and liabilities:                                      |                                 |             |
| Accounts receivable   | 35,239                          | (4,450)     |
| Inventories   | 2,141                           | (2,803)     |
| Prepaid expenses, long-term accounts receivable and other assets                  | 6,599                           | 1,746       |
| Accounts payable  | 705                             | 960         |
| Accrued expenses  | (3,580)                         | 2,251       |
| Income taxes payable/receivable   | 421                             | 1,294       |
| Deferred revenue  | (13,210)                        |             |
| Net cash provided by operating activities   | 35,199                          | 7,918       |
| <b>Cash flows from investing activities</b>                                       |                                 |             |
| Purchase of property and equipment  | (57)                            | (136)       |
| Net cash used in investing activities   | (57)                            | (136)       |
| <b>Cash flows from financing activities</b>                                       |                                 |             |
| Proceeds from exercise of common stock options and warrants                       | 9                               | 483         |
| Excess tax benefit from stock-based compensation                                  | 2                               | 421         |
| Principal payments on capital lease obligation                                    | (20)                            | (3)         |
| Net cash (used in) provided by financing activities                               | (9)                             | 901         |
| Net increase in cash and cash equivalents   | 35,133                          | 8,683       |
| <b>Cash and cash equivalents as of beginning of period</b>                        | 50,945                          | 18,853      |
| <b>Cash and cash equivalents as of end of period</b>                              | \$ 86,078                       | \$ 27,536   |

The accompanying notes are an integral part of the consolidated financial statements.

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**CORNERSTONE THERAPEUTICS INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1: ORGANIZATION AND BASIS OF PRESENTATION**

**Nature of Operations**

Cornerstone Therapeutics Inc., together with its subsidiaries (collectively, the Company), is a specialty pharmaceutical company focused on acquiring, developing and commercializing products for the respiratory and related markets. Key elements of the Company's strategy are to leverage commercial capabilities by promoting respiratory and related products to high prescribing physicians through the Company's respiratory sales force and to hospital-based healthcare professionals through the Company's hospital sales force; acquire rights to existing patent- or trade secret-protected, branded products, which can be promoted through the same channels to generate on-going high-value earnings streams; advance the Company's development projects and further build a robust pipeline; and generate revenues by marketing approved generic products through the Company's wholly owned subsidiary, Aristos Pharmaceuticals, Inc.

**Principles of Consolidation**

The Company's consolidated financial statements include the accounts of Cornerstone Therapeutics Inc. and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

**Interim Financial Statements**

The accompanying unaudited consolidated financial statements include all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of these financial statements. The consolidated balance sheet at December 31, 2010 has been derived from the Company's audited consolidated financial statements included in its annual report on Form 10-K for the year ended December 31, 2010, and these financial statements should be read in connection with those financial statements.

Certain information and footnote disclosure normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (GAAP) have been condensed or omitted. It is suggested that these financial statements be read in conjunction with the consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2010.

Operating results for the three month period ended March 31, 2011 are not necessarily indicative of the results for the full year.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Use of Estimates**

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. The more significant estimates reflected in the Company's consolidated financial statements include certain judgments regarding revenue recognition, product rights, inventory valuation, accrued expenses and stock-based compensation. Actual results could differ from those estimates or assumptions.

**Concentrations of Credit Risk and Limited Suppliers**

The financial instruments that potentially subject the Company to concentrations of credit risk are cash, cash equivalents and accounts receivable. The Company's cash and cash equivalents are maintained with two financial institutions.

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The Company relies on certain materials used in its development and manufacturing processes, most of which are procured from a single source. The Company purchases its pharmaceutical ingredients pursuant to long-term supply agreements with a limited number of suppliers. The failure of a supplier, including a subcontractor, to deliver on schedule could delay or interrupt the development or commercialization process and thereby adversely affect the Company's operating results. In addition, a disruption in the commercial supply of or a significant increase in the cost of the active pharmaceutical ingredient ( API ) from any of these sources could have a material adverse effect on the Company's business, financial position and results of operations. During the three months ended March 31, 2011, one supplier individually accounted for 77% of the Company's total inventory purchases. Amounts due to this supplier represented approximately 18% of total accounts payable as of March 31, 2011.

The Company sells its products primarily to large national wholesalers, which in turn resell the products to smaller or regional wholesalers, hospitals, retail pharmacies, chain drug stores, government agencies and other third parties. The following table lists the Company's customers that individually comprised greater than 10% of total gross product sales for the three months ended March 31, 2011 and 2010 or 10% of total accounts receivable as of March 31, 2011 and December 31, 2010:

|                                    | <b>Three Months Ended<br/>March 31,</b> |                                    | <b>March<br/>31,</b>           | <b>December<br/>31,</b>        |
|------------------------------------|---|------------------------------------|--------------------------------|--------------------------------|
|                                    | <b>2011</b>                             | <b>2010</b>                        | <b>2011</b>                    | <b>2010</b>                    |
|                                    | <b>Gross<br/>Product<br/>Sales</b>      | <b>Gross<br/>Product<br/>Sales</b> | <b>Accounts<br/>Receivable</b> | <b>Accounts<br/>Receivable</b> |
| Cardinal Health, Inc.              | 39%                                     | 45%                                | 43%                            | 50%                            |
| McKesson Corporation               | 35                                      | 30                                 | 49                             | 30                             |
| AmerisourceBergen Drug Corporation | 21                                      | 18                                 | 7                              | 15                             |
| Total                              | 95%                                     | 93%                                | 99%                            | 95%                            |

**Cash and Cash Equivalents**

The Company considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. The Company maintains its cash deposits with federally insured banks. As of March 31, 2011, all cash deposits were federally insured.

**Accounts Receivable**

The Company typically requires its customers to remit payments within the first 30 to 90 days, depending on the customer and the products purchased. In addition, the Company offers wholesale distributors a prompt payment discount if they make payments within these deadlines. This discount is generally 2%, but may be higher in some instances due to product launches or customer and/or industry expectations. Because the Company's wholesale distributors typically take the prompt payment discount, the Company accrues 100% of the prompt payment discounts, based on the gross amount of each invoice, at the time of sale, and the Company applies earned discounts at the time of payment. The Company adjusts the accrual periodically to reflect actual experience. Historically, these adjustments have not been material.

The Company performs ongoing credit evaluations and does not require collateral. As appropriate, the Company establishes provisions for potential credit losses. In the opinion of management, no allowance for doubtful accounts was necessary as of March 31, 2011 or December 31, 2010. The Company writes off accounts receivable when management determines they are uncollectible and credits payments subsequently received on such receivables to bad debt expense in the period received. There were no write offs during the three months ended March 31, 2011 or 2010.

The following table represents accounts receivable, net as of March 31, 2011 and December 31, 2010 (in thousands):

|   | <b>March 31,<br/>2011</b> | <b>December<br/>31,<br/>2010</b> |
|---|---------------------------|----------------------------------|
| Accounts receivable                         | \$ 41,291                 | \$ 78,491                        |
| Less allowance for prompt payment discounts | (1,121)                   | (2,015)                          |
| Accounts receivable, net                    | \$ 40,170                 | \$ 76,476                        |

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In December 2010, the Company sold its remaining inventories of its marketed unapproved products, which include ALLERX® and HYOMAX®, primarily to national wholesalers. In connection with certain of these sales, the Company offered various extended payment terms, some of which extend through June 2012. The Company has classified accounts receivable of \$582,000 and \$7.9 million relating to such sales as long-term accounts receivable and other assets in the accompanying consolidated balance sheets as of March 31, 2011 and December 31, 2010, respectively.

**Inventories**

Inventories are stated at the lower of cost or market value with cost determined under the first-in, first-out method and consist of raw materials, work in process and finished goods. Raw materials include the API for a product to be manufactured, work in process includes the bulk inventory of tablets that are in the process of being coated and/or packaged for sale, and finished goods include pharmaceutical products ready for commercial sale or distribution as samples.

On a quarterly basis, the Company analyzes its inventory levels and records allowances for inventory that has become obsolete, inventory that has a cost basis in excess of the expected net realizable value and inventory that is in excess of expected requirements based upon anticipated product sales.

The following table represents inventories, net as of March 31, 2011 and December 31, 2010 (in thousands):

|                                 | <b>March 31,<br/>2011</b> | <b>December<br/>31,<br/>2010</b> |
|---------------------------------|---------------------------|----------------------------------|
| Raw materials                   | \$ 5,025                  | \$ 5,542                         |
| Work in process                 | 1,105                     | 1,575                            |
| Finished goods:                 |                           |                                  |
| Pharmaceutical products trade   | 7,460                     | 8,635                            |
| Pharmaceutical products samples | 1,084                     | 1,267                            |
| Total                           | 14,674                    | 17,019                           |
| Inventory allowances            | (1,373)                   | (1,845)                          |
| Inventories, net                | \$ 13,301                 | \$ 15,174                        |

**Revenue Recognition**

The Company's consolidated net revenues represent the Company's net product sales and license and royalty agreement revenues. The following table sets forth the categories of the Company's net revenues (in thousands):

|  | <b>Three Months Ended<br/>March 31,</b> |             |
|--|---|-------------|
|  | <b>2011</b>                             | <b>2010</b> |
| Gross product sales                    | \$ 51,195                               | \$ 54,968   |
| Sales allowances                       | (21,220)                                | (18,576)    |
| Net product sales                      | 29,975                                  | 36,392      |
| License and royalty agreement revenues | 22                                      | 14          |
| Net revenues                           | \$ 29,997                               | \$ 36,406   |

The Company records all of its revenue from product sales, license agreements and royalty agreements when realized or realizable and earned. Revenue is realized or realizable and earned when all of the following criteria are

met: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services have been rendered; (3) the seller's price to the buyer is fixed or determinable; and (4) collectability is reasonably assured.

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*Product Sales.* The Company recognizes revenue from its product sales upon transfer of title, which occurs when product is received by its customers. The Company sells its products primarily to large national wholesalers, which have the right to return the products they purchase. The Company is required to reasonably estimate the amount of future returns at the time of revenue recognition. The Company recognizes product sales net of estimated allowances for product returns, rebates, price adjustments, chargebacks, and prompt payment and other discounts. When the Company cannot reasonably estimate the amount of future product returns, it records revenues when the risk of product return has been substantially eliminated.

As of March 31, 2011 and December 31, 2010, the Company had \$44.0 million and \$57.2 million, respectively, of deferred revenue related to sales made in 2010 for which future returns could not be reasonably estimated at the time of sale. The deferred revenue is recognized when the product is sold through to the end user based upon prescriptions filled. To estimate product sold through to end users, the Company relies on third-party information, including prescription data and information obtained from significant distributors with respect to their inventory levels and sell-through to customers. Deferred revenue is recorded net of estimated allowances for rebates, price adjustments, chargebacks, and prompt payment and other discounts. Changes in estimated allowances are recorded when information that gives rise to the changes becomes known. Estimated allowances were recorded as of December 31, 2010 and remain classified as accrued expenses in the accompanying consolidated balance sheet as of March 31, 2011. The cost of product sales as of March 31, 2011 of \$1.0 million related to the deferred revenue has been deferred and classified in the accompanying consolidated balance sheet as prepaid and other current assets. The cost of product sales as of December 31, 2010 of \$1.3 million related to the deferred revenue has been deferred and classified in the accompanying consolidated balance sheet as prepaid and other current assets and long-term accounts receivable and other assets in the amounts of \$1.1 million and \$250,000, respectively.

*Product Returns.* Consistent with industry practice, the Company offers contractual return rights that allow its customers to return the majority of its products within an 18-month period that begins six months prior to and ends twelve months subsequent to expiration of the products. The Company's products have an 18 to 48 month expiration period from the date of manufacture. The Company adjusts its estimate of product returns if it becomes aware of other factors that it believes could significantly impact its expected returns. These factors include actual and historical return rates for expired lots, historical and forecasted product sales and consumer consumption data reported by external information management companies, estimated expiration dates or remaining shelf life of inventory in the distribution channel, estimates of inventory levels of its products in the distribution channel and any significant changes to these levels, and competitive issues such as new product entrants and other known changes in sales trends. The Company evaluates this reserve on a quarterly basis, assessing each of the factors described above, and adjusts the reserve through charges to income in the period in which the information that gives rise to the adjustment becomes known.

*Rebates.* The liability for government program rebates is calculated based on historical and current rebate redemption and utilization rates contractually submitted by each program's administrator.

*Price Adjustments and Chargebacks.* The Company's estimates of price adjustments and chargebacks are based on its estimated mix of sales to various third-party payors, which are entitled either contractually or statutorily to discounts from the Company's listed prices of its products. These estimates are also based on the contract fees the Company pays to certain group purchasing organizations (GPOs) in connection with the Company's sales of CUROSURF®. In the event that the sales mix to third-party payors or the contract fees paid to GPOs are different from the Company's estimates, the Company may be required to pay higher or lower total price adjustments and/or chargebacks than it has estimated.

The Company, from time to time, offers certain promotional product-related incentives to its customers. These programs include sample cards to retail consumers, certain product incentives to pharmacy customers and other sales stocking allowances. The Company has initiated voucher programs for its promoted products whereby the Company offers a point-of-sale subsidy to retail consumers. The Company estimates its liabilities for these voucher programs based on the historical redemption rates for similar completed programs used by other pharmaceutical companies as reported to the Company by a third-party claims processing organization and actual redemption rates





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for the Company's completed programs. The Company accounts for the costs of these special promotional programs as price adjustments, which are a reduction of gross revenue.

*Prompt Payment Discounts.* The Company typically offers its wholesale customers a prompt payment discount of 2% as an incentive to remit payments within the first 30 to 90 days after the invoice date depending on the customer and the products purchased (see "Accounts Receivable" above).

**License and Royalty Agreement Revenues**

Payments from the Company's licensees are recognized as revenue based on the nature of the arrangement (including its contractual terms), the nature of the payments and applicable accounting guidance. Non-refundable fees where the Company has no continuing performance obligations are recognized as revenues when there is persuasive evidence of an arrangement and collection is reasonably assured. If the Company has continuing performance obligations, nonrefundable fees are deferred and recognized ratably over the estimated performance period. At-risk milestone payments, which are typically related to regulatory, commercial or other achievements by the Company's licensees, are recognized as revenues when the milestone is accomplished and collection is reasonably assured. Refundable fees are deferred and recognized as revenues upon the later of when they become nonrefundable or when performance obligations are completed.

There were no license agreement revenues for the three months ended March 31, 2011 or 2010.

Royalty agreement revenues are earned under license agreements which provide for the payment of royalties based on sales of certain licensed products. These revenues are recognized based on product sales that occurred in the relevant period. Royalty agreement revenues were \$22,000 and \$14,000 for the three months ended March 31, 2011 and 2010, respectively.

**NOTE 3: GOODWILL AND INTANGIBLE ASSETS****Goodwill**

The Company's goodwill balance as of March 31, 2011 and December 31, 2010 was \$13.2 million and relates to the October 31, 2008 merger whereby the Company, which was then known as Critical Therapeutics, Inc. ( "Critical Therapeutics" ), merged (through a transitory subsidiary) with Cornerstone BioPharma Holdings, Inc., which was deemed to be the acquiring company for accounting purposes (the "Merger" ). No amount of the goodwill balance at March 31, 2011 will be deductible for income tax purposes.

**Product Rights**

The following tables represent product rights, net as of March 31, 2011 and December 31, 2010 (in thousands):

|                            | <b>March 31, 2011</b>     |                     |               | <b>Weighted<br/>-<br/>Average<br/>Amortization<br/>Period<br/>(yrs.)</b> |
|----------------------------|---------------------------|---------------------|---------------|--|
|                            | <b>Gross<br/>Carrying</b> | <b>Accumulated</b>  | <b>Net</b>    |  |
|                            | <b>Amount</b>             | <b>Amortization</b> | <b>Amount</b> |  |
| CUROSURF                   | \$ 107,606                | \$ 17,038           | \$ 90,568     | 10.0   |
| FACTIVE®                   | 7,613                     | 2,454               | 5,159         | 4.8  |
| SPECTRACEF®                | 4,505                     | 2,122               | 2,383         | 10.0   |
| ZYFLO®                     | 11,500                    | 3,878               | 7,622         | 7.1  |
| Products under development | 3,000                     |                     | 3,000         | n/a  |
| Other                      | 75                        | 74                  | 1             | 4.3  |
| Total                      | \$ 134,299                | \$ 25,566           | \$ 108,733    | 9.5  |

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|                            | <b>December 31, 2010</b> |                     |                   | <b>Weighted</b>     |
|----------------------------|--------------------------|---------------------|-------------------|---------------------|
|                            | <b>Gross</b>             | <b>Accumulated</b>  | <b>Net</b>        | <b>Average</b>      |
|                            | <b>Carrying</b>          | <b>Amortization</b> | <b>Amount</b>     | <b>Amortization</b> |
|                            | <b>Amount</b>            | <b>Amount</b>       | <b>Amount</b>     | <b>Period</b>       |
|                            |                          |                     |                   | <b>(yrs.)</b>       |
| CUROSURF                   | \$ 107,606               | \$ 14,347           | \$ 93,259         | 10.0                |
| FACTIVE                    | 7,613                    | 2,061               | 5,552             | 4.8                 |
| SPECTRACEF                 | 4,505                    | 2,017               | 2,488             | 10.0                |
| ZYFLO                      | 11,500                   | 3,477               | 8,023             | 7.1                 |
| Products under development | 3,000                    |                     | 3,000             | n/a                 |
| Other                      | 75                       | 69                  | 6                 | 4.3                 |
| <b>Total</b>               | <b>\$ 134,299</b>        | <b>\$ 21,971</b>    | <b>\$ 112,328</b> | <b>9.5</b>          |

The Company amortizes the product rights related to its currently marketed products over their estimated useful lives, which range from four to ten years. As of March 31, 2011, the Company had \$3.0 million of product rights related to products it expects to launch in the future. The Company expects to begin amortization upon the commercial launch of the first product using these rights, which is expected to be shortly after regulatory approval of such first product. The rights will be amortized over the estimated useful lives of the new products.

**NOTE 4: ACCRUED EXPENSES**

The components of accrued expenses are as follows (in thousands):

|   | <b>March 31,</b> | <b>December</b>  |
|---|------------------|------------------|
|   | <b>2011</b>      | <b>31,</b>       |
|   |                  | <b>2010</b>      |
| Accrued product returns                   | \$ 14,955        | \$ 15,025        |
| Accrued rebates                           | 3,190            | 3,034            |
| Accrued price adjustments and chargebacks | 18,260           | 21,520           |
| Accrued compensation and benefits         | 2,189            | 2,760            |
| Accrued royalties                         | 3,387            | 3,303            |
| Accrued expenses, other                   | 998              | 957              |
| <b>Total accrued expenses</b>             | <b>\$ 42,979</b> | <b>\$ 46,599</b> |

In December 2010, the Company sold its remaining inventories of its marketed unapproved products, which included ALLERX and HYOMAX, primarily to national wholesalers. As of March 31, 2011 and December 31, 2010, the Company had \$44.0 million and \$57.2 million, respectively, of deferred revenue related to sales for which future returns could not be reasonably estimated at the time of sale. Deferred revenue was recorded net of estimated allowances for rebates, price adjustments, chargebacks, and prompt payment and other discounts. Estimated allowances were recorded as of December 31, 2010 and remain classified as accrued expenses as of March 31, 2011.

**NOTE 5: STOCK-BASED COMPENSATION****Stock Options**

The Company currently uses the Black-Scholes-Merton option pricing model to determine the fair value of its stock options. The determination of the fair value of stock-based payment awards on the date of grant using an option pricing model is affected by the Company's stock price, as well as assumptions regarding a number of complex and subjective variables. These variables include the Company's expected stock price volatility over the term of the

awards, actual employee exercise behaviors, risk-free interest rate and expected dividends.

There were 495,547 and 3,331 stock options granted and exercised, respectively, during the three months ended March 31, 2011.

The following table shows the assumptions used to value stock options on the date of grant, as follows:

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|   | <b>Three Months<br/>Ended<br/>March 31,<br/>2011</b> |
|---|--|
| Estimated dividend yield  | 0.0%   |
| Expected stock price volatility                                     | 80%  |
| Risk-free interest rate   | 2.02-2.16%   |
| Expected life of option (in years)                                  | 5.00   |
| Weighted-average grant date fair value per share of options granted | \$ 3.46  |

The Company has not paid and does not anticipate paying cash dividends; therefore, the expected dividend rate was assumed to be 0%. The expected stock price volatility was based on Critical Therapeutics (now the Company) historical volatility from December 31, 2005 through the month of grant. The risk-free rate was based on the U.S. Treasury yield curve in effect at the time of grant commensurate with the expected life assumption. The expected life was estimated based on historical exercise patterns for previous grants, taking into account employee exercise strategy and cancellation behavior.

As of March 31, 2011, the aggregate intrinsic value of options outstanding and exercisable was \$6.6 million and \$5.4 million, respectively.

As of March 31, 2011, there was \$3.9 million of total unrecognized compensation cost related to unvested stock options, which is expected to be recognized over a weighted-average period of 2.99 years.

**Restricted Stock**

During the three months ended March 31, 2011, 55,000 shares of restricted stock were issued and 6,930 shares vested. As of March 31, 2011, there were 220,570 restricted common shares outstanding and \$1.1 million of total unrecognized compensation cost related to unvested restricted stock, which is expected to be recognized over a weighted-average period of 2.72 years.

**Stock-Based Compensation Expense**

Total stock-based compensation expense recognized based on the total grant date fair value of shares vested was approximately \$379,000 and \$280,000 for the three months ended March 31, 2011 and 2010.

**NOTE 6: COMMITMENTS AND CONTINGENCIES****Lease Obligations**

The Company leases its facilities, certain equipment and automobiles under non-cancelable operating leases expiring at various dates through 2016. The Company recognizes lease expense on a straight-line basis over the term of the lease, excluding renewal periods, unless renewal of the lease is reasonably assured. Lease expense was approximately \$314,000 and \$336,000 for the three months ended March 31, 2011 and 2010, respectively.

**Supply Agreements**

The Company has entered into various supply agreements with certain vendors and pharmaceutical manufacturers. Financial commitments related to these agreements totaled approximately \$12.8 million as of March 31, 2011, which includes any minimum amounts payable and penalties for failure to satisfy purchase commitments that the Company has determined to be probable and that are reasonably estimable. Since many of these commitment amounts are dependent on variable components of the agreements, actual payments and the timing of those payments may differ from management's estimates. As of March 31, 2011, the Company had outstanding purchase orders related to inventory, excluding commitments under supply agreements, totaling approximately \$11.2 million.

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**Royalty Agreements**

The Company has contractual obligations to pay royalties to the former owners or licensors of certain product rights that have been acquired by or licensed to the Company. These royalties are typically based on a percentage of net sales of the particular licensed product. For the three months ended March 31, 2011 and 2010, total royalty expenses were \$2.5 million and \$4.6 million, respectively. Certain of these royalty agreements also require minimum annual payments, which have been included in royalty expense on the consolidated statements of income. Pursuant to these agreements, the Company is obligated to pay future minimum royalties of \$1.1 million.

**Collaboration Agreements**

The Company is committed to make potential future milestone payments to third parties as part of licensing, distribution and development agreements. Payments under these agreements generally become due and payable only upon achievement of certain development, regulatory and/or commercial milestones. The Company may be required to make \$54.6 million in additional payments to various parties if all milestones under the agreements are met. Because the achievement of milestones is neither probable nor reasonably estimable, such contingent payments have not been recorded on the accompanying consolidated balance sheets. The Company is also obligated to pay royalties on net sales or gross profit, if any, of certain product candidates currently in its portfolio following their commercialization.

As of March 31, 2011, the Company had outstanding financial commitments related to ongoing research and development contracts totaling approximately \$2.7 million.

**Co-Promotion and Marketing Services Agreements**

The Company has entered into a co-promotion and marketing service agreement and a co-promotion agreement that grant third parties the exclusive rights to promote and sell certain products in conjunction with the Company. Under these agreements, the third parties are responsible for the costs associated with their sales representatives and the product samples distributed by their sales representatives, as well as certain other promotional expenses related to the products. Under one agreement, the Company pays the third party co-promotion fees equal to the ratio of total prescriptions written by pulmonary specialists to total prescriptions during the applicable period multiplied by a percentage of quarterly net sales of the products covered by the agreement, after third-party royalties. Under the other agreement, the Company pays the third parties fees based on a percentage of the net profits from sales of the product above a specified baseline within assigned sales territories. The co-promotion agreement is also subject to sunset fees that require the Company to pay additional fees for up to three months in the event of certain defined terminations of this agreement.

As of March 31, 2011, the Company had outstanding financial commitments related to various marketing and analytical service agreements totaling approximately \$8.3 million.

**Severance**

Selected executive employees of the Company have employment agreements which provide for severance payments of up to two times base salary, bonuses and benefits upon termination, depending on the reasons for the termination. The executive would also be required to execute a release and settlement agreement. As of March 31, 2011, the Company had no amounts recorded as accrued severance.

**NOTE 7: INCOME TAXES**

The Company computes an estimated annual effective tax rate for interim financial reporting purposes. The estimated annual effective tax rate is used to compute the tax expense or benefit related to ordinary income or loss. Tax expense or benefit related to all other items is individually computed and recognized when the items occur. The

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Company's effective tax rate for the three month periods ended March 31, 2011 and 2010 was 30.3% and 37.8%, respectively.

The estimated annual effective tax rate for the year ending December 31, 2011 includes a benefit of approximately 33% related to a reduction in the valuation allowance offsetting deferred tax assets. As of the date of the Merger, Critical Therapeutics had approximately \$64.0 million in deferred tax assets, primarily relating to net operating loss carryforwards ( NOLs ) and tax credits. The Company determined that utilization of these deferred tax assets was limited due to the requirements of Section 382 of the Internal Revenue Code. Therefore, the deferred tax assets resulting from these NOLs and tax credits were offset by a full valuation allowance. The reversal of the valuation allowance that relates to the Company's use of these deferred tax assets in 2011 is projected to be \$663,000 and will be recorded as a reduction to tax expense. The Company has not established any other valuation allowances.

There were no changes in unrecognized tax positions for the three months ended March 31, 2011. As of March 31, 2011, the Company had no unrecognized tax benefits, including those that would affect the effective tax rate. The Company does not reasonably expect any change to the amount of unrecognized tax benefits within the next 12 months.

The Company recognizes any annual interest and penalties related to uncertain tax positions as operating expenses in its statements of income. For the three months ended March 31, 2011, the Company recognized no interest or penalties related to uncertain tax positions in the statements of income.

The 2007 through 2010 tax years of the Company are open to examination by federal tax and state tax authorities. The Company has not been informed by any tax authorities for any jurisdiction that any of its tax years is under examination.

**NOTE 8: RELATED PARTY TRANSACTIONS**

Chiesi Farmaceutici S.p.A. ( Chiesi ), the Company's majority stockholder, manufactures all of the Company's requirements for CUROSURF pursuant to a license and distribution agreement that became effective on July 28, 2009. The Company began promoting and selling CUROSURF in September 2009. Inventory purchases from Chiesi aggregated \$3.5 million for the three months ended March 31, 2011. As of March 31, 2011, the Company had accounts payable of \$1.5 million due to Chiesi.

**NOTE 9: NET INCOME PER SHARE**

Basic net income per share is computed by dividing net income by the weighted-average number of common shares outstanding during each period. Diluted net income per share is computed by dividing net income by the sum of the weighted-average number of common shares and dilutive common share equivalents outstanding during the period. Dilutive common share equivalents consist of the incremental common shares issuable upon the exercise of stock options and warrants and the impact of non-vested restricted stock grants.

The following table sets forth the computation of basic and diluted net income per share (in thousands, except share and per share data):

|   | <b>Three Months Ended March</b> |             |
|---|---------------------------------|-------------|
|   | <b>31,</b>                      |             |
|   | <b>2011</b>                     | <b>2010</b> |
| Numerator:  |                                 |             |
| Net income  | \$ 1,742                        | \$ 5,013    |
| Denominator:  |                                 |             |
| Weighted-average common shares, basic                           | 25,479,891                      | 25,349,677  |
| Dilutive effect of stock options, warrants and restricted stock | 608,960                         | 602,275     |
| Weighted-average common shares, diluted                         | 26,088,851                      | 25,951,952  |
| Net income per share, basic                                     | \$ 0.07                         | \$ 0.20     |
| Net income per share, diluted                                   | \$ 0.07                         | \$ 0.19     |

|                                       |           |           |
|---------------------------------------|-----------|-----------|
| Anti-dilutive weighted-average shares | 1,556,578 | 1,393,338 |
|---------------------------------------|-----------|-----------|

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**NOTE 10: SUBSEQUENT EVENTS**

The Company has evaluated all events or transactions that occurred after March 31, 2011. The Company did not have any material subsequent events that require adjustment or disclosure in these financial statements.

**NOTE 11: RECENT ACCOUNTING PRONOUNCEMENTS**

There were no recent accounting pronouncements that have not yet been adopted by the Company that are expected to have a material impact on the Company's consolidated financial statements.



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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following discussion is designed to provide a better understanding of our unaudited consolidated financial statements, including a brief discussion of our business and products, key factors that impact our performance and a summary of our operating results. You should read the following discussion and analysis of financial condition and results of operations together with our unaudited consolidated financial statements and the related notes included in Part I Item 1. Financial Statements of this quarterly report on Form 10-Q and the consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our annual report on Form 10-K for the year ended December 31, 2010. In addition to historical information, the following discussion contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results could differ materially from those anticipated by the forward-looking statements due to important factors including, but not limited to, those set forth under Part I Item 1A. Risk Factors of our annual report on Form 10-K for the year ended December 31, 2010 and any material changes to those risk factors discussed below in Part II Item 1A. Risk Factors .*

**Executive Overview**

***Strategy***

We are a specialty pharmaceutical company focused on acquiring, developing and commercializing products for the respiratory and related markets.

Our strategy is to:

Leverage commercial capabilities by promoting respiratory and related products to high prescribing physicians through our respiratory sales force and to hospital-based healthcare professionals through our hospital sales force;

Acquire rights to existing patent- or trade secret-protected, branded products, which can be promoted through the same channels to generate on-going high-value earnings streams;

Advance our development projects and further build a robust pipeline; and

Generate revenues by marketing approved generic products through our wholly owned subsidiary, Aristos Pharmaceuticals, Inc.

We believe that if we implement this strategy successfully, we can deliver consistent long-term earnings growth.

***First Quarter 2011 Highlights***

The following summarizes certain key financial results for the three months ended March 31, 2011:

Overall, cash and cash equivalents increased \$35.1 million or 69% to \$86.1 million as of March 31, 2011 compared to \$50.9 million as of December 31, 2010;

Our strategic products' net revenues increased \$3.5 million, or 20%, to \$21.0 million for the three months ended March 31, 2011 from \$17.5 million for the three months ended March 31, 2010.

Curosurf® posted a 4.2% increase in market share for the three months ended March 31, 2011 as compared to the three months ended March 31, 2010.

Net product sales from our marketed unapproved and other discontinued products were \$9.0 million for the three months ended March 31, 2011 compared to \$18.9 million for the three months ended March 31, 2010, a decrease of 53%. Total net revenues decreased \$6.4 million, or 18%, to \$30.0 million for the three months ended March 31, 2011 from \$36.4 million for the three months ended March 31, 2010.

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Income from operations decreased \$5.5 million, or 68%, to \$2.5 million for the three months ended March 31, 2011 from \$8.1 million for the three months ended March 31, 2010 when calculated in accordance with accounting principles generally accepted in the United States, or GAAP basis, and decreased \$5.4 million, or 45%, to \$6.5 million for the three months ended March 31, 2011 from \$11.9 million for the three months ended March 31, 2010 on a non-GAAP basis; and

Net income decreased \$3.3 million, or 65%, to \$1.7 million for the three months ended March 31, 2011 from \$5.0 million for the three months ended March 31, 2010 on a GAAP basis, and decreased \$2.9 million, or 39%, to \$4.5 million for the three months ended March 31, 2011 from \$7.4 million for the three months ended March 31, 2010 on a non-GAAP basis.

Sales of some of our products fluctuate with the seasonality of the respiratory season, which primarily results in higher revenues in our first and fourth fiscal quarters. We do not believe that our product sales for the three months ended March 31, 2011 are indicative of the results we expect for the remaining nine months of 2011. However, we will continue to focus on growing sales of all of our strategic products, even during the periods when demand for certain of those products is customarily lower.

***Opportunities and Trends***

We generate revenue by promoting our products to targeted physicians whose practices focus on the treatment of respiratory disorders. Primarily, these physicians are specialists. However, we continually identify and target highest decile physicians who are treating patients with respiratory ailments.

We will continue to direct our marketing efforts on targeted physicians in order to understand unmet patient needs in the respiratory area. By understanding these needs, we believe that we can systematically focus our efforts on acquiring or developing products that meet these needs. Also, we believe there are opportunities to acquire companies whose products or other assets may enhance our growth opportunities.

As of March 31, 2011, our working capital was \$55.2 million which represents a \$6.0 million decrease from our December 31, 2010 working capital of \$61.2 million. The primary drivers of our working capital change were decreases in accounts receivable, net of \$36.3 million, inventory, net of \$1.9 million and an increase in current liabilities of \$1.8 million, partially offset by a \$35.1 million increase in available cash to \$86.1 million.

Also, our relationship with Chiesi Farmaceutici S.p.A., or Chiesi, as a commercial partner continues to strengthen. In what we view as a challenging economic environment, we believe that our available cash and the Chiesi relationship, uniquely position us among our peers to capitalize on potential growth opportunities.

In summary, during 2011, we plan to continue to implement our strategy of combining organic growth, strategic acquisitions and product development. We plan to evaluate our performance with particular reference to the following fiscal and management measures, which we believe will be drivers of our success:

Sales growth of our strategic products through our respiratory and hospital sales forces;

Acquisition of rights to proprietary respiratory or hospital products that align with our strategy and that offer potential for sustainable growth; and

Progress in the development of our product candidates, including receiving marketing approval by the FDA for CRTX 067 in 2011.

During 2010, we continued our intentional, strategic shift away from marketed unapproved products in order to focus on the branded approved products and, as of December 31, 2010, we ceased manufacturing and distributing all of our marketed unapproved products. Although we will continue to recognize revenue from marketed unapproved products based on prescriptions filled, we expect that net sales from these products will gradually decline. We plan to replace these revenues, as well as revenues from other products we withdrew from the market in 2010, with increased revenues from our branded approved products, particularly CUROSURF and ZYFLO CR<sup>®</sup>, and with revenues from our cough/cold product candidate, CRTX 067, for which we are targeting FDA approval during 2011, and from any other approved products which we can acquire and commercialize.

**Table of Contents****Results of Operations****Comparison of the Three Months Ended March 31, 2011 and 2010**

The following table sets forth certain consolidated statement of income data and certain non-GAAP financial information for the periods indicated (in thousands, except percentages and per share data):

|   | <b>Three Months Ended</b> |             | <b>Change</b> |          |
|---|---------------------------|-------------|---------------|----------|
|   | <b>March 31,</b>          |             | <b>\$</b>     | <b>%</b> |
|   | <b>2011</b>               | <b>2010</b> |               |          |
| <i>Net product sales</i>  |                           |             |               |          |
| CUROSURF  | \$ 7,508                  | \$ 7,097    | \$ 411        | 6%       |
| ZYFLO product family  | 7,412                     | 6,274       | 1,138         | 18       |
| FACTIVE®  | 2,800                     | 2,107       | 693           | 33       |
| SPECTRACEF® product family  | 3,277                     | 1,977       | 1,300         | 66       |
| ALLERX® Dose Pack products  | 11,581                    | 12,369      | (788)         | (6)      |
| HYOMAX® product family  | 788                       | 3,899       | (3,111)       | (80)     |
| Other products  | (3,391)                   | 2,669       | (6,060)       | (227)    |
| Total net product sales   | 29,975                    | 36,392      | (6,417)       | (18)     |
| <i>License and royalty agreement revenues</i>                       | 22                        | 14          | 8             | 57       |
| Net revenues  | 29,997                    | 36,406      | (6,409)       | (18)     |
| Cost of product sales (exclusive of amortization of product rights) | 7,537                     | 6,819       | 718           | 11       |
| Selling, general and administrative                                 | 13,269                    | 12,425      | 844           | 7        |
| Royalties   | 2,497                     | 4,598       | (2,101)       | (46)     |
| Research and development  | 559                       | 906         | (347)         | (38)     |
| Amortization of product rights                                      | 3,595                     | 3,595       | 0             | 0        |
| Income from operations  | 2,540                     | 8,063       | (5,523)       | (68)     |
| Total other expenses, net   | (41)                      | (1)         | (40)          | NM       |
| Income before income taxes  | 2,499                     | 8,062       | (5,563)       | (69)     |
| Provision for income taxes  | (757)                     | (3,049)     | 2,292         | (75)     |
| Net income  | \$ 1,742                  | \$ 5,013    | \$ (3,271)    | (65)%    |
| Net income per share, diluted                                       | \$ 0.07                   | \$ 0.19     | \$ (0.12)     | (63)%    |
| Non-GAAP income from operations (1)                                 | \$ 6,514                  | \$ 11,938   | \$ (5,424)    | (45)%    |
| Non-GAAP net income (1)   | \$ 4,512                  | \$ 7,423    | \$ (2,911)    | (39)%    |
| Non-GAAP net income per share, diluted (1)                          | \$ 0.17                   | \$ 0.29     | \$ (0.12)     | (41)%    |

(1) A reconciliation of our non-GAAP financial measures to the comparable GAAP measures is included below.  
NM Not meaningful.

**Net Revenues**

*Net Product Sales.*

CUROSURF net product sales increased \$411,000, or 6%, during the three months ended March 31, 2011 compared to the three months ended March 31, 2010, primarily due to the accelerated rate of hospital conversions to CUROSURF in the second half of 2010.

ZYFLO CR and ZYFLO net product sales increased \$1.1 million, or 18%, during the three months ended March 31, 2011 compared to the three months ended March 31, 2010, primarily due to the positive impact of sales and marketing efforts during the course of 2010 and the implementation of patient support initiatives.

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FACTIVE net product sales increased \$693,000, or 33%, during the three months ended March 31, 2011 compared to the three months ended March 31, 2010, primarily due to additional promotional efforts for our anti-infective products.

SPECTRACEF product family net product sales increased \$1.3 million, or 66%, during the three months ended March 31, 2011 compared to the three months ended March 31, 2010, primarily due to additional promotional efforts for our anti-infective products.

ALLERX Dose Pack net product sales decreased \$788,000, or 6%, during the three months ended March 31, 2011 compared to the three months ended March 31, 2010. During the three months ended March 31, 2011, revenue was recognized as prescriptions were filled instead of our historic practice of recognizing revenue at the time of sale. This change was due to our inability to estimate product returns as a result of changes in market dynamics, large amounts of channel inventory and extended payment terms offered on certain sales. Because we began the quarter with inventory in the distribution channel for which revenue had already been recognized, which was then used to fill prescriptions during the quarter, we did not recognize additional revenue until this inventory had been depleted. This resulted in lower net product sales in the three months ended March 31, 2011 compared to the same period in 2010. At March 31, 2011, approximately \$42.4 million of revenue from sales of ALLERX products remained deferred due to our inability to estimate returns.

HYOMAX net product sales decreased \$3.1 million, or 80%, during the three months ended March 31, 2011 compared to the three months ended March 31, 2010. During the three months ended March 31, 2011, revenue was recognized as prescriptions were filled instead of our historic practice of recognizing revenue at the time of sale. This change was due to our inability to estimate product returns as a result of changes in market dynamics, large amounts of channel inventory and extended payment terms offered on certain sales. Because we began the quarter with inventory in the distribution channel for which revenue had already been recognized, which was then used to fill prescriptions during the quarter, we did not recognize additional revenue until this inventory had been depleted. This resulted in lower net product sales in the three months ended March 31, 2011 compared to the same period in 2010. At March 31, 2011, approximately \$1.6 million of revenue from sales of HYOMAX products remained deferred due to our inability to estimate returns.

Net product sales from other products decreased \$6.1 million, or 227%, during the three months ended March 31, 2011 compared to the three months ended March 31, 2010, primarily due to the November 2010 withdrawal from the market of our propoxyphene/acetaminophen products, which included BALACET<sup>®</sup> 325; APAP 325; our generic formulation of BALACET 325; and APAP 500. We voluntarily withdrew these products in response to the FDA's actions requiring the withdrawal of the branded versions of propoxyphene, specifically Darvon<sup>®</sup>, Darvon-N<sup>®</sup> and Darvocet-N<sup>®</sup>. Net product sales for these products during the three months ended March 31, 2010 were \$2.7 million, whereas we had no product sales from these products during the three months ended March 31, 2011. During the three months ended March 31, 2011, we also recorded returns in excess of our original estimates related to these products resulting in an additional \$3.4 million decrease in net product sales.

*Costs and Expenses*

*Cost of Product Sales.* Cost of product sales (exclusive of amortization of product rights of \$3.6 million for each of the three months ended March 31, 2011 and 2010) increased \$718,000, or 11%, during the three months ended March 31, 2011 compared to the three months ended March 31, 2010.

Gross margin (exclusive of license and royalty agreement revenues and amortization of product rights) was as follows (dollars in thousands):

|   | <b>Three Months Ended</b> |             | <b>Change</b> |          |
|---|---------------------------|-------------|---------------|----------|
|   | <b>2011</b>               | <b>2010</b> | <b>\$</b>     | <b>%</b> |
| Net product sales   | \$ 29,975                 | \$ 36,392   | \$ (6,417)    | (18)%    |
| Cost of product sales (exclusive of amortization of product rights) | 7,537                     | 6,819       | 718           | 11       |

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|                        |           |           |            |       |
|------------------------|-----------|-----------|------------|-------|
| Gross margin           | \$ 22,438 | \$ 29,573 | \$ (7,135) | (24)% |
| % of net product sales | 20        | 75%       | 81%        |       |

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Gross margin as a percentage of net product sales for the three months ended March 31, 2011 decreased six percentage points compared to the three months ended March 31, 2010 primarily due to a shift in product mix. Gross margin was also negatively impacted by an adjustment related to our propoxyphene/acetaminophen products and higher costs related to certain of our promotional efforts for our anti-infective products.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses increased \$845,000, or 7%, during the three months ended March 31, 2011 compared to the three months ended March 31, 2010. This increase was primarily due to increases in our marketing and promotional spending relating to FACTIVE and SPECTRACEF; a Risk Evaluation and Mitigation Strategy (REMS) study for FACTIVE; and post-marketing stability expenses.

*Royalty Expenses.* Royalty expenses decreased \$2.1 million, or 46%, during the three months ended March 31, 2011 compared to the three months ended March 31, 2010. This decrease was primarily due to lower net revenues of the HYOMAX products.

*Research and Development Expenses.* Research and development expenses decreased \$347,000, or 38%, during the three months ended March 31, 2011 compared to the three months ended March 31, 2010. This decrease is due to the timing of our product development expenses, which remains consistent with our development plan. Our product development expenses for particular product candidates vary significantly from period to period depending on the product development stage and the nature and extent of the activities undertaken to advance the product candidate's development in a given reporting period.

*Provision for Income Taxes*

The provision for income taxes was \$757,000 for the three months ended March 31, 2011 compared to \$3.0 million for the three months ended March 31, 2010. Our effective tax rates for the three months ended March 31, 2011 and 2010 were 30.3% and 37.8%, respectively. The decrease in the effective tax rate was due primarily to changes resulting from an increase in our net operating loss usage generating a tax benefit recognized in the three months ended March 31, 2011.

***Reconciliation of Non-GAAP Financial Measures***

To supplement the consolidated financial statements presented in accordance with GAAP, we use non-GAAP measures of certain components of financial performance. These non-GAAP measures include non-GAAP operating income, non-GAAP net income and non-GAAP net income per diluted share. Our management regularly uses supplemental non-GAAP financial measures to understand, manage and evaluate our business and make operating and compensation decisions. These non-GAAP measures are among the primary factors management uses in planning for and forecasting future periods.

These non-GAAP measures are not in accordance with, or an alternative to, measures prepared in accordance with GAAP and may be different from similarly titled non-GAAP measures used by other companies. In addition, these non-GAAP measures are not based on any comprehensive set of accounting rules or principles. The additional non-GAAP financial information presented herein should be considered in conjunction with, and not as a substitute for, or superior to, the financial information presented in accordance with GAAP (such as operating income, net income and earnings per share) and should not be considered measures of our liquidity. These non-GAAP measures should only be used to evaluate our results of operations in conjunction with the corresponding GAAP measures.

The non-GAAP financial measures reflect adjustments for stock-based compensation expense and amortization of product rights. We exclude these expenses from our non-GAAP measures because we believe that their exclusion provides an additional means to assess the extent to which our efforts and execution of our strategy are reflected in our operating results. In particular, stock-based compensation expense is excluded primarily because it is a non-cash expense that is determined based on subjective assumptions. Product rights amortization is excluded because it is not reflective of the cash-settled expenses incurred related to product sales. Our management believes that these non-GAAP measures, when shown in conjunction with the corresponding GAAP measures, enhance investors' and management's overall understanding of our current financial performance and our prospects for the future.

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The non-GAAP measures are subject to inherent limitations because (1) they do not reflect all of the expenses associated with the results of operations as determined in accordance with GAAP and (2) the exclusion of these expenses involved the exercise of judgment by management. Even though we have excluded stock-based compensation expense and amortization of product rights from the non-GAAP financial measures, stock-based compensation is an integral part of our compensation structure and the acquisition of product rights is an important part of our business strategy.

The following tables reconcile our non-GAAP measures to the most directly comparable GAAP financial measures (in thousands, except share and per share data):

|   | <b>For the three months ended<br/>March 31,</b> |             |
|---|---|-------------|
|   | <b>2011</b>                                     | <b>2010</b> |
| GAAP income from operations                           | \$ 2,540  | \$ 8,063    |
| Add: stock-based compensation                         | 379   | 280         |
| Add: amortization of product rights                   | 3,595   | 3,595       |
| Non-GAAP income from operations                       | \$ 6,514  | \$ 11,938   |
| GAAP net income                                       | \$ 1,742  | \$ 5,013    |
| Add: stock-based compensation                         | 379   | 280         |
| Add: amortization of product rights                   | 3,595   | 3,595       |
| Less: tax effects related to above items <sup>1</sup> | (1,204)   | (1,465)     |
| Non-GAAP net income                                   | \$ 4,512  | \$ 7,423    |
| GAAP net income per share, diluted                    | \$ 0.07   | \$ 0.19     |
| Non-GAAP net income per share, diluted                | \$ 0.17   | \$ 0.29     |

Shares used in diluted net income per share calculation:

|                     |            |            |
|---------------------|------------|------------|
| GAAP net income     | 26,088,851 | 25,951,952 |
| Non-GAAP net income | 26,088,851 | 25,951,952 |

<sup>1</sup> Tax effects for the three months ended March 31, 2011 and 2010 are calculated using effective tax rates of 30.3% and 37.8% respectively.

**Liquidity and Capital Resources****Sources of Liquidity**

We require cash to meet our operating expenses and for capital expenditures, acquisitions and in-licenses of rights to products and payments on our license agreement liability. To date, we have funded our operations primarily from product sales, royalty agreement revenues and the investment from Chiesi. As of March 31, 2011, we had \$86.1 million in cash and cash equivalents.





**Table of Contents****Cash Flows**

The following table provides information regarding our cash flows (in thousands):

|   | <b>Three Months Ended<br/>March 31,</b> |             |
|---|---|-------------|
|   | <b>2011</b>                             | <b>2010</b> |
| Cash provided by (used in):               |   |             |
| Operating activities                      | \$ 35,199                               | \$ 7,918    |
| Investing activities                      | (57)                                    | (136)       |
| Financing activities                      | (9)                                     | 901         |
| Net increase in cash and cash equivalents | \$ 35,133                               | \$ 8,683    |

**Net Cash Provided By Operating Activities**

Our primary sources of operating cash flows are product sales. Our primary uses of cash in our operations are for funding working capital, selling, general and administrative expenses and royalties.

Net cash provided by operating activities for the three months ended March 31, 2011 reflected our net income of \$1.7 million, adjusted by non-cash expenses totaling \$5.1 million and changes in accounts receivable, inventories, deferred revenue, income taxes payable, accrued expenses and other operating assets and liabilities totaling \$28.3 million. Non-cash items included amortization and depreciation of \$3.7 million, changes in allowances for prompt payment discounts and inventory obsolescence totaling \$799,000, stock-based compensation of \$379,000 and changes in deferred income tax of \$251,000. Accounts receivable decreased by \$35.2 million from December 31, 2010 to March 31, 2011, primarily due to collections of receivables in connection with the December 2010 distribution of ALLERX and HYOMAX products. Inventories decreased by \$2.1 million from December 31, 2010 to March 31, 2011, primarily due to reductions in CUROSURF, SPECTRACEF and FACTIVE finished product and samples for FACTIVE. Prepaid expenses, long-term accounts receivable and other assets decreased by \$6.6 million, primarily due to the decrease of long-term accounts receivable, amortization of regulatory fees and changes in our voucher programs. Accounts payable increased by \$705,000 from December 31, 2010 to March 31, 2011, primarily due to timing differences. Accrued expenses decreased by \$3.6 million from December 31, 2010 to March 31, 2011, primarily due to a decrease in accrued price adjustments and chargebacks as well as a decrease in the bonus accrual. Income taxes payable increased by \$421,000 and deferred revenue decreased by \$13.2 million from December 31, 2010 to March 31, 2011.

Net cash provided by operating activities for the three months ended March 31, 2010 reflected our net income of \$5.0 million, adjusted by non-cash expenses totaling \$3.9 million and changes in accounts receivable, inventories, income taxes payable, accrued expenses and other operating assets and liabilities totaling \$1.0 million.

**Net Cash Used in Investing Activities**

Net cash used in investing activities for the three months ended March 31, 2011 reflected the purchase of property and equipment for \$57,000.

Net cash used in investing activities for the three months ended March 31, 2010 reflected the purchase of property and equipment for \$136,000.

**Net Cash Provided by (Used in) Financing Activities**

Net cash used in financing activities for the three months ended March 31, 2011 reflected principal payments on capital leases of \$20,000, partially offset by proceeds from common stock option exercises of \$9,000 and an excess tax benefit from stock options of \$2,000.

Net cash provided by financing activities for the three months ended March 31, 2010 reflected proceeds from common stock option exercises of \$483,000 and an excess tax benefit from stock options of \$421,000, partially offset by principal payments on capital leases of \$3,000.

**Table of Contents****Funding Requirements**

Our future capital requirements will depend on many factors, including:

the level of product sales and product returns of our currently marketed products and any additional products that we may market in the future;

the scope, progress, results and costs of development activities for our current product candidates;

the costs, timing and outcome of regulatory review of our product candidates;

the number of, and development requirements for, additional product candidates that we pursue;

the costs of commercialization activities, including product marketing, sales and distribution;

the costs and timing of establishing manufacturing and supply arrangements for clinical and commercial supplies of our product candidates and products;

the extent to which we acquire or invest in products, businesses and technologies;

the extent to which we choose to establish collaboration, co-promotion, distribution or other similar arrangements for our marketed products and product candidates; and

the costs of preparing, filing and prosecuting patent applications and maintaining, enforcing and defending claims related to intellectual property owned by or licensed to us.

To the extent that our capital resources are insufficient to meet our future capital requirements, we will need to finance our cash needs through public or private equity offerings, debt financings, corporate collaboration and licensing arrangements or other financing alternatives. We have no committed external sources of funds. Additional equity or debt financing, or corporate collaboration and licensing arrangements, may not be available on acceptable terms, if at all.

As of March 31, 2011, we had approximately \$86.1 million of cash and cash equivalents on hand. Based on our current operating plans, we believe that our existing cash and cash equivalents and anticipated revenues from product sales are sufficient to continue to fund our existing level of operating expenses and capital expenditure requirements for the foreseeable future.

**Contractual Obligations**

Contractual obligations represent future cash commitments and liabilities under agreements with third parties and exclude contingent contractual liabilities for which we cannot reasonably predict future payment, including contingencies related to potential future development, financing, contingent royalty payments and/or scientific, regulatory, or commercial milestone payments under development agreements. There have been no material changes outside the ordinary course of business to our contractual obligations during the three months ended March 31, 2011. The following table summarizes our contractual obligations as of March 31, 2011 (in thousands):

|                           | <b>Total</b> | <b>Payments Due by Period</b> |                  |                  |                          |
|---------------------------|--------------|-------------------------------|------------------|------------------|--------------------------|
|                           |              | <b>Less than 1 Year</b>       | <b>1-3 Years</b> | <b>3-5 Years</b> | <b>More than 5 Years</b> |
| Capital lease obligations | \$ 240       | \$ 75                         | \$ 164           | \$ 1             | \$                       |
| Operating leases(1)       | 2,930        | 482                           | 1,113            | 1,183            | 152                      |
| Purchase obligations(2)   | 35,415       | 20,500                        | 14,461           | 215              | 239                      |
| Royalty obligations(3)    | 1,065        | 15                            | 750              | 150              | 150                      |

|                               |           |           |           |          |        |
|-------------------------------|-----------|-----------|-----------|----------|--------|
| Total contractual obligations | \$ 39,650 | \$ 21,072 | \$ 16,488 | \$ 1,549 | \$ 541 |
|-------------------------------|-----------|-----------|-----------|----------|--------|

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(1) Operating leases include minimum payments under leases for our facilities, automobiles and certain equipment. Our total minimum lease payments for the corporate headquarters are \$482,000 in 2011 (of which we paid \$119,000 during the first three months of 2011), \$492,000 in 2012, \$536,000 in 2013, \$584,000 in 2014 and \$751,000 thereafter.

(2) Purchase obligations include fixed or minimum payments under manufacturing and supply agreements with third-party manufacturers of \$24.1 million; clinical trial and research agreements with contract research organizations and consultants of \$2.7 million; agreements with providers of marketing analytical services of \$8.3 million; and open purchase orders for the acquisition of goods and services in the ordinary course of business of \$337,000.

(3) Royalty obligations include minimum royalty payments due in connection with certain of our agreements.

In addition to the material contractual cash obligations included in the chart above, we have committed to make potential future milestone payments to third parties as part of licensing, distribution and development agreements. Payments under these agreements generally become due and payable only upon achievement of certain development, regulatory and/or commercial milestones. We may be required to make additional payments of \$54.6 million if all milestones are met. Because the achievement of milestones is neither probable nor reasonably estimable, such contingent payments have not been recorded on our consolidated balance sheets and have not been included in the table above.

**Off-Balance Sheet Arrangements**

Since inception, we have not engaged in any off-balance sheet arrangements, including structured finance, special purpose entities or variable interest entities.

**Critical Accounting Policies and Estimates**

Our consolidated financial statements have been prepared in accordance with GAAP. For information regarding our critical accounting policies and estimates, please refer to Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates contained in our annual report on Form 10-K for the year ended December 31, 2010 and Note 2 to our consolidated financial statements contained therein. There have been no material changes to the critical accounting policies previously disclosed in that report.

**Recent Accounting Pronouncements**

As discussed in Note 11 to our consolidated financial Statements included in Part I Item 1. Financial Statements of this quarterly report on Form 10-Q, there are no recent accounting pronouncements that we have not yet adopted that are expected to have a material impact on our consolidated financial statements.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

**Interest Rate Risk**

Our exposure to market risk is confined to our cash equivalents, all of which have maturities of less than three months and bear and pay interest in U.S. dollars. Since we invest in highly liquid, relatively low yield investments, we do not believe interest rate changes would have a material impact on us.

Our risk associated with fluctuating interest expense is limited to future capital leases and other short-term debt obligations we may incur in our normal operations. We do not have any other instruments with interest rate exposure.

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**Foreign Currency Exchange Risk**

The majority of our transactions occur in U.S. dollars and we do not have subsidiaries or investments in foreign countries. Therefore, we are not subject to significant foreign currency exchange risk. We currently have two development agreements denominated in foreign currencies, Euros and Swiss francs. Unfavorable fluctuations in these exchange rates could have a negative impact on our consolidated financial statements. The impact of changes in the exchange rates related to these contracts was immaterial to our consolidated financial statements for the three months ended March 31, 2011 and 2010. We do not believe a fluctuation in these exchange rates would have a material impact on us. To date, we have not considered it necessary to use foreign currency contracts or other derivative instruments to manage changes in currency rates. These circumstances may change.

**ITEM 4. CONTROLS AND PROCEDURES**

**Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures**

As of March 31, 2011, our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15(b) promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act). Based upon that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that, as of March 31, 2011, our disclosure controls and procedures were effective in ensuring that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, including ensuring that such information is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

**Changes in Internal Control Over Financial Reporting**

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended March 31, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

There are no material pending legal proceedings to which we are a party or to which any of our property is subject.

**ITEM 1A. RISK FACTORS**

We operate in a rapidly changing environment that involves a number of risks that could materially and adversely affect our business, financial condition, prospects, operating results or cash flows. For a detailed discussion of the risk factors that should be understood by any investor contemplating an investment in our stock, please refer to Item 1A of our annual report on Form 10-K for the year ended December 31, 2010, which was filed with the SEC on March 3, 2011. There have been no material changes from the risk factors previously disclosed in that annual report on Form 10-K, except as follows:

**Risks Relating to Product Development and Regulatory Matters**

*Some of our pharmaceutical products have been marketed without approved NDAs or ANDAs.*

Even though the Federal Food, Drug and Cosmetic Act requires pre-marketing approval of all new drugs, as a matter of history and regulatory policy, the FDA has exercised its discretion to permit older legacy, unapproved drugs to remain on the market temporarily by employing a risk-based enforcement policy. Although the FDA

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considers all such drugs to require its approval, the FDA's enforcement policy prioritizes unapproved products that pose potential safety risks, lack evidence of effectiveness, prevent patients from seeking effective therapies or are marketed fraudulently. In addition, the FDA is more likely to bring an enforcement action with respect to an unapproved drug if it finds that the marketer and its manufacturers are also allegedly in non-compliance with current Good Manufacturing Practices, or cGMP, requirements.

In accordance with our overall business strategy, we discontinued manufacturing and distribution of all of our marketed unapproved products, including our ALLERX Dose Pack products and our HYOMAX line of products, as of December 31, 2010. Our decision does not limit the FDA's enforcement authority and the FDA may seek to require the withdrawal of these products while revenue is still being recognized based off wholesaler and distributor pull-through.

In March 2011, the FDA announced that it intends to initiate enforcement action against marketed unapproved prescription cough, cold and allergy products manufactured on or after June 1, 2011 or shipped on or after August 30, 2011. All of our marketed unapproved products were manufactured and shipped by December 31, 2010; furthermore, this action does not require the recall or withdrawal of any products. However, it is impossible to predict the impact that the FDA's announcement may have on the market for products such as ALLERX, and certain of our partners in the distribution channel may choose to return some of our ALLERX products to us before the expiration of their shelf life. At March 31, 2011, approximately \$42.4 million of revenue from sales of ALLERX remain deferred due to our inability to estimate returns. If we are required to accept a large amount of returns of ALLERX products and to issue refunds in respect of them, this may result in our not being able to recognize some or all of our deferred revenues, which could have a material adverse effect on our financial condition, results of operations, cash balances and cash flows.

For the years ended December 31, 2009 and 2010, our ALLERX Dose Pack products and our HYOMAX line of products generated \$59.9 million and \$37.4 million of net product sales, respectively. We may not be able to replace these revenues with revenues from our strategic products. If we are not able to replace these product revenues, our discontinuance of these products could have a material adverse effect on our business, financial condition and results of operations and cash flows.

**ITEM 6. EXHIBITS**

The exhibits listed in the accompanying exhibit index are filed as part of this quarterly report on Form 10-Q, and such exhibit index is incorporated by reference herein.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**CORNERSTONE THERAPEUTICS  
INC.**

Date: May 12, 2011

/s/ Craig Collard  
Craig Collard  
*President and Chief Executive Officer*  
*(Principal Executive Officer)*

Date: May 12, 2011

/s/ Vincent T. Morgus  
Vincent T. Morgus  
*Executive Vice President, Finance and*  
*Chief Financial Officer*  
*(Principal Financial Officer)*

Date: May 12, 2011

/s/ Ira Duarte  
Ira Duarte  
*Director of Accounting*  
*(Principal Accounting Officer)*  
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**EXHIBIT INDEX**

| <b>Exhibit No.</b> | <b>Description</b>  |
|--------------------|---|
| 10.1               | Executive Employment Agreement between the Registrant and Vincent T. Morgus dated February 1, 2011 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated February 1, 2011). |
| 10.2               | Amended and Restated Director Compensation and Reimbursement Policy of the Registrant effective May 18, 2011  |
| 31.1               | Certification of Principal Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                   |
| 31.2               | Certification of Principal Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                   |
| 32.1               | Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  |
| 32.2               | Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  |