

Altus Pharmaceuticals Inc.
Form 10-K/A
April 28, 2009

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K/A
(Amendment No.1)**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2008**

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 No. 000-51711
ALTUS PHARMACEUTICALS INC.
(Exact Name of Registrant as Specified in its Charter)**

Delaware **04-3573277**
(State or Other Jurisdiction of Incorporation or *(I.R.S. Employer Identification No.)*
Organization)

333 Wyman Street, Waltham, Massachusetts **02451**
(Address of Principal Executive Offices) *(Zip Code)*

**Registrant's telephone number, including area code: (781) 373-6000
Securities registered pursuant to Section 12(b) of the Act:**

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, \$.01 par value	The NASDAQ Stock Market LLC
Securities registered pursuant to Section 12(g) of the Act:	
NONE	
<i>(Title of Class)</i>	

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES NO

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 (§ 229.405 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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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 Act). YES NO
The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold on The Nasdaq Global Market on June 30, 2008 was \$137,373,943.

The number of shares outstanding of the registrant's common stock as of April 27, 2009 was 31,131,056.

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EXPANATORY NOTE

This Amendment No. 1 on Form 10-K/A (Amendment No. 1) amends our Annual Report on Form 10-K for the year ended December 31, 2008, as filed with the Securities and Exchange Commission on March 11, 2009 (the Annual Report), to include the information required by Part III of Form 10-K. The information required by Items 10-14 of Part III is no longer being incorporated by reference to the Proxy Statement relating to the Company s 2009 Annual Meeting of Shareholders. This amendment does not update any other information presented in the Annual Report as originally filed.

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Table of Contents**PART III****ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE****The Board of Directors**

Set forth below are the names of the persons nominated as directors and directors whose terms do not expire this year, their ages as of April 1, 2009, their offices in the Company, if any, their principal occupations or employment for the past five years, the length of their tenure as directors and the names of other public companies in which such persons hold directorships.

Name	Age	Position with the Company
Georges Gemayel	48	President and Chief Executive Officer, Director
David D. Pendergast, Ph.D.(1)(2)(4)	61	Chairman of the Board
Manuel A. Navia, Ph.D.(3)(4)	62	Director
Harry H. Penner, Jr.(2)(3)	63	Director
John P. Richard (2)	51	Director
Michael S. Wyzga(2)	54	Director

(1) Our former President and Chief Executive Officer, Sheldon Berkle, served as a director until his resignation on February 4, 2008. On February 4, 2008, Dr. Pendergast became our Executive Chairman on an interim basis, and resigned as our Executive Chairman in June 2008, when Georges Gemayel became our President and Chief Executive Officer and a Director.

(2) Audit Committee. The Audit Committee is

currently
comprised of
Messrs. Wyzga,
Penner and
Richard.

Dr. Pendergast
served on the
Audit
Committee in
2007 through
February 14,
2008, at which
time he resigned
from the Audit
Committee in
connection with
his appointment
as Executive
Chairman. On
February 14,
2008,
Mr. Richard,
who had
previously
served as a
member of the
Audit
Committee until
January 2007,
was appointed
to the Audit
Committee to
fill the vacancy
created by
Dr. Pendergast's
resignation.

(3) Nominating and
Governance
Committee. The
Nominating and
Governance
Committee is
currently
comprised of
Mr. Penner and
Dr. Navia.

(4) Compensation
Committee. The
Compensation

Committee is currently comprised of Drs. Navia and Pendergast.

The following is a brief summary of the background of each of our directors.

Georges Gemayel, Ph.D., has served as our President and Chief Executive Officer and as a member of our Board of Directors since June 2008. Prior to joining Altus, Dr. Gemayel was the Executive Vice President at Genzyme Corporation responsible for its global transplant, renal, hospital and biosurgery businesses. Prior to joining Genzyme in 2003, Dr. Gemayel held positions of increasing responsibility over 16 years at Hoffman-LaRoche. Dr. Gemayel completed his doctorate in pharmacy (Pharm. D.) at St. Joseph University in Beirut and earned a Ph.D. in pharmacology at Paris-Sud University. Dr. Gemayel serves as a director of Adolor Corporation, a publicly held biotechnology company.

David D. Pendergast, Ph.D. has served as the Chairman of the Board since November 2007 and as a member of our Board of Directors since November 2006. He also served as our Executive Chairman from February 2008 to June 2008. He is currently the Chief Executive Officer of Proteostasis Therapeutics, Inc. From July 2005 to December 2007, Dr. Pendergast served as President, Human Genetics Therapies at Shire Pharmaceuticals, plc., a pharmaceutical company. Previously, he was employed at Transkaryotic Therapies, Inc., a biotechnology company, from December 2001 to July 2005 serving as the company's Chief Executive Officer, Chief Operating Officer and Executive Vice President of Technical Operations. From April 1996 to August 2001, Dr. Pendergast was Vice President of Product Development and Quality at Biogen, Inc. He has also held senior positions at Fisons Ltd. Pharmaceutical Division and at The Upjohn Company. Dr. Pendergast received a B.A. from Western Michigan University and an M.S. and Ph.D. from the University of Wisconsin.

Manuel A. Navia, Ph.D. is one of our founders and has served as a member of our Board of Directors since 1992. Since March 2004, Dr. Navia has been an Executive-in-Residence at Oxford Bioscience Partners, a venture capital firm. In addition, since March 2003, Dr. Navia has served as a drug discovery and development advisor and consultant to various companies in the biotechnology industry. Prior to that time, from January 2001 to March 2003, Dr. Navia was Executive Vice President for Research at Essential Therapeutics, Inc., a biotechnology company. He

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was a founder of The Althexis Company, Inc. in 1997, and served as its President and Chief Executive Officer until January 2001, when it merged with Microcide Pharmaceuticals Inc. to form Essential Therapeutics. From 1989 to 1997, Dr. Navia served as Vice President and Senior Scientist at Vertex. Dr. Navia holds a Ph.D. and an M.S. in biophysics from the University of Chicago and a B.A. in physics from New York University.

Harry H. Penner, Jr. has served as a member of our Board of Directors since April 2006. In February 2008, Mr. Penner was also appointed to serve as our lead director on an interim basis during the time that Dr. Pendergast served as our Executive Chairman. Mr. Penner has served as Chairman of Nascent BioScience, LLC, a firm engaged in the creation and development of new biotechnology companies, since September 2001. He currently serves as Chairman and Chief Executive Officer of New Haven Pharmaceuticals, Inc., a biotechnology company he co-founded in June 2008. Mr. Penner has also been a co-founder of Marinus Pharmaceuticals, Inc., where he was Chairman and Chief Executive Officer from 2004 to 2007, Rib-X Pharmaceuticals, RxGen, Inc. and Affinimark Technologies, Inc. From 1993 to 2001, he was President, Chief Executive Officer and Vice Chairman of Neurogen Corporation. Previously, he served as Executive Vice President of Novo Nordisk A/S and President of Novo Nordisk of North America, Inc. from 1988 to 1993. From 1985 to 1988, he was Executive Vice President and General Counsel of Novo Nordisk A/S. He has served more recently as BioScience Advisor to the Governor and the State of Connecticut, as Chairman of the Board of Directors for the Connecticut Technology Council, as Co-Chairman of Connecticut United for Research Excellence, and as Chairman of the Connecticut Board of Governors of Higher Education. He currently serves on the Boards of Celldex Therapeutics, Inc., in addition to the Boards of the companies he co-founded. Mr. Penner holds a B.A. from the University of Virginia, a J.D. from Fordham University, and an LL.M. in International Law from New York University.

John P. Richard has served on our Board of Directors since 2001, and was Chairman of the Board from October 2004 until November 2007. Mr. Richard has served as a strategic and commercial development advisor in the biotech industry since April 1999. Mr. Richard currently serves as Senior Business Advisor to GPC Biotech AG, a biotechnology company, as a partner of Georgia Venture Partners, a biotechnology investing firm, and as a Senior Venture Partner with Nomura Phase4 Ventures. He also serves as a director of the publicly-traded company Targacept, Inc., and serves as a director of several private biotechnology companies. Mr. Richard was previously Executive Vice President, Business Development at SEQUUS Pharmaceuticals, Inc., where he was responsible for negotiating the acquisition of SEQUUS by ALZA Corporation. Prior to joining SEQUUS, Mr. Richard held the positions of Vice President, Corporate Development for VIVUS, Inc. and Senior Vice President, Business Development of Genome Therapeutics Corporation, where he was responsible for establishing numerous pharmaceutical alliances. He was also co-founder and original Chief Executive Officer of IMPATH Laboratories, Inc., a leading cancer pathology reference laboratory in the United States. Mr. Richard received his M.B.A. from Harvard Business School and his B.S. from Stanford University.

Michael S. Wyzga has served as a member of our Board of Directors since May 2004. Mr. Wyzga is Executive Vice President and Chief Financial Officer of Genzyme Corporation, a biotechnology company. Mr. Wyzga joined Genzyme as Vice President and Corporate Controller in March 1998, was promoted to Senior Vice President and Corporate Controller in December 1998, and to Chief Financial Officer in June 1999. Mr. Wyzga became an Executive Vice President of Genzyme in June 2003 and is responsible for its global financial reporting. Prior to joining Genzyme, Mr. Wyzga was Chief Financial Officer for Sovereign Hill Software, Inc. Prior to his role at Sovereign Hill Software, Mr. Wyzga was the Chief Financial Officer for CacheLink Corporation, and prior to that, Mr. Wyzga held various management positions at Lotus Development Corporation, including Vice President of Finance and Director of Plans and Controls. Prior to joining Lotus, Mr. Wyzga held management positions at Digital Equipment Corporation. Mr. Wyzga received an M.B.A. from Providence College and a B.S. in business administration from Suffolk University.

Audit Committee

Our Audit Committee has three members, Messrs. Wyzga, Penner and Richard. Mr. Wyzga is the chairman of the Audit Committee. During 2007 and in 2008, until he assumed his role as Executive Chairman in February 2008, Dr. Pendergast served on our Audit Committee. Mr. Richard was appointed to fill the vacancy created by Dr. Pendergast's resignation from the Audit Committee on February 14, 2008. Although Mr. Richard did not meet the

independence requirement ordinarily imposed with respect to Audit Committee members at the time of his appointment, Mr. Richard was appointed to the Audit Committee in accordance with the exemption under Nasdaq Marketplace Rule 4350(d)(2)(B). At that time, the Board of Directors determined that, given Mr. Richard's business and financial experience, along with his in-depth knowledge of our business, his appointment was in the best interest of the Company and our stockholders. Mr. Richard met the independence requirement in May 2008.

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Our Audit Committee's role and responsibilities are set forth in the Audit Committee's written charter and include the authority to retain and terminate the services of our independent auditors. In addition, our Audit Committee pre-approves the engagement of our independent auditors, reviews annual and quarterly financial statements and reports, considers matters relating to accounting policy and internal controls and reviews the scope of annual audits. Nasdaq rules require that all members of the Audit Committee be independent directors, as defined by the rules of the Nasdaq and the SEC, as such standards apply specifically to members of audit committees. Our Board of Directors has determined that the current members of the Audit Committee satisfy the current independence standards promulgated by the SEC and by Nasdaq, as such standards apply specifically to members of audit committees. The Board has determined that Mr. Wyzga is an audit committee financial expert, as the SEC has defined that term in Item 407 of Regulation S-K.

Executive Officers

The following table sets forth certain information regarding our current executive officers as of April 1, 2009. All of our executive officers are at-will employees.

Name	Age	Position
Georges Gemayel, Ph.D.	48	President and Chief Executive Officer, Director
Kenneth Attie, M.D.	52	Vice President, Clinical Development and Medical Affairs
Thomas J. Phair, Jr.	46	Vice President, Finance, Treasurer and Assistant Secretary
Jill E. Porter, Ph.D.	46	Vice President, Process Development and Engineering

Georges Gemayel, Ph.D. See biography above.

Kenneth Attie, M.D. has served as our Vice President, Clinical Development & Medical Affairs since May 2008. Prior to joining us full time, Dr. Attie was a clinical consultant for Altus on the ALTU-238 project beginning in April 2007. From March 2005 to February 2007, Dr. Attie was Vice President, Clinical Development & Medical Affairs and Chief Medical Officer for Inmed, Inc., where he was responsible for obtaining FDA approval of an IGF-1-related product. From January 2001 to February 2005, Dr. Attie was a clinical consultant for various biotechnology companies internationally. From September 1988 to December 2000, Dr. Attie held positions of increasing responsibility at Genentech, Inc., including Senior Clinical Scientist responsible for growth hormone products, including obtaining FDA approval for a long-acting growth hormone product. Dr. Attie was Assistant Clinical Professor of Pediatrics at the University of California, San Francisco Medical Center during that time. Dr. Attie is board certified in Pediatrics and Pediatric Endocrinology. He did his residency at New York University Medical Center and his Pediatric Endocrine Fellowship at UCSF Medical Center. Dr. Attie received his M.D. from NYU School of Medicine and B.A. from the University of Michigan, Ann Arbor.

Thomas J. Phair, Jr. has served as our Vice President, Finance, Treasurer and Assistant Secretary since March 2009. Mr. Phair joined us in July 2006 as Senior Director of Finance, Corporate Controller. From 2002 to July 2006, Mr. Phair was Corporate Controller at ArQule, Inc. Before 2002, Mr. Phair held financial management positions at various companies, including Exchange Technologies, Inc., Gomez, Inc, PAREXEL International Corp, Nashua Corporation and Price Waterhouse LLP. Mr. Phair received a B.B.A. from the University of Massachusetts, Amherst.

Jill E. Porter, Ph.D. has served as our Vice President, Process Development and Engineering since September 2007. Prior to joining us, Dr. Porter was employed at Roche for 16 years in positions of increasing responsibility including Director, Biopharmaceuticals from February 2001 through August, 2007. Dr. Porter holds an MBA from Columbia University, a Ph.D. in Agricultural Engineering from Purdue University and a B.S. in Chemical Engineering from the Massachusetts Institute of Technology.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our directors and executive officers, and persons who own more than 10% of a registered class of our equity securities, to file with the SEC initial reports of ownership and reports of changes in ownership of our common stock and other equity securities. Officers, directors and greater than 10% stockholders are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file.

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Our records reflect that all reports required to be filed pursuant to Section 16(a) of the Exchange Act by our executive officers and directors have been filed on a timely basis.

Code of Conduct and Ethics

We have adopted a code of conduct and ethics that applies to all of our employees, including our principal executive officer and principal financial and accounting officer, and our directors. The text of the code of conduct and ethics is posted on our website at www.altus.com and will be made available to stockholders without charge, upon request, in writing to the Corporate Secretary at 333 Wyman Street, Waltham, MA 02451. Disclosure regarding any amendments to, or waivers from, provisions of the code of conduct and ethics that apply to our directors, principal executive and financial and accounting officers will be included in a Current Report on Form 8-K within four business days following the date of the amendment or waiver, unless website posting of such amendments or waivers is then permitted by the rules of The Nasdaq Stock Market.

ITEM 11. EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

The primary objectives of the Compensation Committee of our Board of Directors with respect to executive compensation are to attract and retain the best possible executive talent, to motivate them to achieve corporate objectives, and reward them for superior performance. The focus is to tie short and long-term cash and equity incentives, in the form of stock options, to the achievement of measurable corporate and individual performance objectives, and to align executives' incentives with stockholder value creation. To achieve these objectives, the Compensation Committee has developed a compensation plan that ties a substantial portion of executives' overall compensation to our research, clinical, regulatory, commercial and operational performance. Because we believe the performance of every employee is important to our success, we are mindful of the effect our executive compensation and incentive programs have on all of our employees.

As discussed more fully below in our specific discussion of salaries, annual stock option awards and annual cash bonuses, we have undergone a strategic realignment in connection with our decision to discontinue the Trizytek program and focus our development efforts on ALTU-238. This decision to conserve our financial resources for the development of ALTU-238 also affected the compensation decisions we made with respect to performance in 2008 and our compensation philosophy and objectives for 2009. As a result, our compensation philosophy going forward is focused more heavily on creating the foundation for value creation in the future and on retention of our management and research and development teams through this transition period.

Determining Executive Compensation

In 2008, management continued our previously developed compensation plans by utilizing publicly available compensation data and subscription compensation survey data for national and regional companies in the biotechnology industry, in particular data obtained from Radford Biotechnology Surveys, prepared by AON Consulting, Inc. We believe these data provide us with appropriate compensation benchmarks because these companies have similar organizational structures and tend to compete with us for executives and other employees. For benchmarking executive compensation, we typically review the compensation data we have collected from the surveys, as well as various subsets of these data, to compare elements of compensation based on certain characteristics of the Company, such as number of employees and number of shares of stock outstanding. While benchmarking provided a significant basis for structuring the compensation plan, it was not the sole basis because comparable companies have varying equity structures and competitive sources of talent. The Compensation Committee established appropriate levels of cash and equity-based compensation by taking into consideration employee recruitment and retention needs as well as the percentage of our outstanding equity that was appropriate to allocate to executive compensation.

Based on management's analyses and recommendations, and subject to the strategic alignment announced by the Company in January 2009, the Compensation Committee continued to implement a pay-for-performance compensation philosophy, which is intended to bring base salaries and total executive compensation in line with approximately the 50th percentile (50th to 75th percentile in the case of our Chief Executive Officer) of the companies with a similar number of employees represented in the compensation data we review.

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We worked within the framework of this pay-for-performance philosophy in 2008 to determine each component of an executive's initial compensation package based on numerous factors, including:

the individual's particular background and circumstances, including training and prior relevant work experience and uniqueness of industry skills;

the individual's role with us and the compensation paid to similar persons in the companies represented in the compensation data that we review;

the demand for people with the individual's specific expertise and experience at the time of hire;

performance goals and other expectations for the position; and

comparison to other executives within our Company having similar levels of expertise and experience.

Each of our employees, including our executive officers, is assigned to a pay grade, determined by comparing position-specific duties and responsibilities with the market pay data and our internal structure. Each pay grade has a salary range with corresponding annual and long-term, non-cash incentive award opportunities. As noted above, salary ranges and incentive award opportunities are established with a view to being in line with approximately the 50th percentile of the companies that we consider to be peers, in terms of size and industry sectors, while taking into account our particular equity structure and recruitment and retention needs. Ranges are established to be broad enough to provide flexibility as well as the ability to grant annual increases based on performance without having to change an employee's pay grade each year. We believe this is the most transparent and flexible approach to achieve the objectives of the executive compensation program.

Establishment of Goals and Performance Evaluations

Annual Performance Management Program

During the first quarter of each year, our President and Chief Executive Officer ordinarily submits his proposal for the Company's goals for that year to our Board of Directors. The Board of Directors reviews the proposed goals, makes any adjustments it believes are necessary or warranted and approves a set of Company goals for the year. Once the Company's goals are established, each employee, including our executive officers, develops a written individual set of goals to support the goals of their respective department and the Company as a whole. Our President and Chief Executive Officer reviews and approves the goals of each of our vice presidents, who themselves approve the goals of the employees within their department. The Company goals approved by our Board of Directors are also the individual goals for our President and Chief Executive Officer. The goals of each of our executive officers are reviewed and approved by our President and Chief Executive Officer. Both the Company's goals and each individual's goals are designed to be specific, measurable, timed and challenging, but achievable. At year end, each executive is reviewed and his or her performance is evaluated. The performance review process is designed to measure and reward executives for their job performance in the prior year. Performance is measured by evaluating two components: (a) measurement of the individual's performance, based on knowledge, experience, achievement and leadership behaviors relative to the responsibilities of the position, which results in a merit rating, and (b) measurement of the level of achievement of established goals for the year. Salary increases are based on an executive's merit rating for the prior year, and bonuses are based on the level of achievement of individual and Company goals. Stock option awards are based on a combination of an executive's merit rating, which takes into account performance and, to a certain extent, the achievement of individual goals and the achievement of Company goals. Special recognition awards and promotions, to the extent granted, are tied to assumption of new responsibilities and the achievement of these Company and individual performance goals, as well as an executive's merit rating. In addition to rating performance, during the annual review process, our President and Chief Executive Officer also determines if any executive officer should be promoted and, if there are significant differences in how he or she is compensated as compared to industry benchmarks, propose any additional adjustments to be made.

This collaborative annual review process begins in December of each year with each executive completing a written self-evaluation. The annual reviews of our executive officers are conducted by our President and Chief

Executive Officer, who reviews each executive's self-evaluation and provides his own evaluation. Following his review of our executive officers, our President and Chief Executive Officer prepares compensation recommendations for our executive officers, which are reviewed and finalized with our Senior Director of Human Resources. The final recommendations are then submitted, together with the recommendations for all our employees, to the Compensation Committee, along with an analysis supporting the recommendations, which

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summarizes the performance of each executive. The President and Chief Executive Officer may also discuss this analysis with the Compensation Committee. The Compensation Committee may accept or adjust the recommendations, and the use of these recommendations in making compensation decisions is in its discretion. After the Compensation Committee approves the final set of compensation awards and adjustments, the President and Chief Executive Officer then meets with each executive officer to deliver the performance reviews and discuss any compensation adjustments.

Our Compensation Committee, with contributions from the other members of our Board of Directors, determines the level of achievement of the Company's goals, evaluates our President and Chief Executive Officer's performance and decides on any compensation adjustments to be made with respect to his compensation.

Our Company goals for 2008, which were established in the first quarter of 2008, were challenging and involved significant technical hurdles. The Compensation Committee considered the Company's level of achievement of the following Company goals, together with the associated weights assigned to each. We refer to these goals as the 2008 Company Goals.

2008 Company Goals	Weight	% Achieved (as Determined by the Compensation Committee)	Weight Achieved
Successfully complete Phase III efficacy trial for Trizytek in the third quarter of 2008; maintain the timing of the filing of a New Drug Application for Trizytek in the first half of 2009; enter into a drug product manufacturing agreement in timeframe that supports a commercial launch in the first quarter of 2010	35%	80%	28%
Complete Phase Ic pharmacokinetic and pharmacodynamic trial for ALTU-238 in the third quarter of 2008 to enable an initiation of a pediatric Phase II trial in the first quarter of 2009; secure a long-term supply of hGH that would ultimately support commercialization; secure a term sheet for global or US/Europe partnership by end of 2008	20%	90%	18%
Complete Phase I trial and report data for ALTU-237 in the second quarter of 2008; continue formulation work to improve the formulation and complete a program plan and budget	10%	100%	10%
Complete necessary animal pharmacology to enable go/no go decision on ALTU-236 and ALTU-242	10%	90%	9%
Complete a preliminary strategic plan in the first half of 2008	10%	100%	10%
Prepare the Company for a financing; managing expenses; execute on relocation to Waltham office space; maintaining regulatory compliance	15%	100%	15%
Total Achieved:			90%/100%

In determining the percentage of each of our goals that we achieved during 2008, the Compensation Committee took into account the magnitude of the technical and other challenges that were involved, as well as the end result.

Compensation Components

The components of our compensation package are as follows:

Base Salary

Base salaries for our executives are established based on the scope of their responsibilities and their prior relevant background, training, and experience, taking into account competitive market compensation paid by the companies represented in the compensation data we review for similar positions and the overall market demand for such executives at the time of hire. As with total executive compensation, we believe that executive base salaries should

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generally target the 50th percentile of the range of salaries for executives in similar positions and with similar responsibilities in the companies of similar size to us represented in the compensation data we review. An executive's base salary is also evaluated together with other components of the executive's compensation to ensure that the executive's total compensation is in line with our overall compensation philosophy.

Base salary increases have historically been based on a merit rating resulting from the annual review process. The level of merit increase is based, in part, on benchmarking data from Radford. The Radford Survey provides an average performance increase for comparable companies. We use that data to establish our own higher or lower percentage increases based on an individual's merit rating with the goal of the aggregate increases resulting in that average. For example, the average performance increase for 2008 for comparable companies based on the Radford data was 4%. Using that average, we typically establish a distribution in which, depending on the level of performance, employees received a lower or higher percentage merit salary increase for the applicable year. These merit increase values are designed to delineate the various levels of performance in order to recognize and reward the high performing employees. To achieve this goal, certain ratings are assigned absolute values while others are assigned ranges to allow for varying degrees of performance within these categories.

In light of the decision to conserve cash resources and focus on the development of ALTU-238 in 2009, the Compensation Committee determined to keep base salaries at the 2008 levels for each of the Company's executive officers, with the exception of Thomas Phair, who was promoted to assume responsibility as our principal financial and accounting officer in March 2009 and received a base annual salary increase from \$187,000 to \$200,000.

Annual Cash Bonus

Our executive officers earn an annual cash bonus up to a certain percentage of their annual base salary. The intent of the bonus plan is to provide competitive cash compensation through an annual variable pay plan that reflects the Company's performance and the individual's performance as measured against goals and objectives. The target percentage of each executive's bonus is based on his or her position at the Company. The bonus plan is based on two components: the extent to which the Company achieves its goals and the extent to which the employee achieves his or her individual goals. As an executive's level of responsibility at the Company increases, the portion tied to the achievement of Company goals increases and the portion tied to individual goals decreases. These target bonus percentages are generally set forth in the executive's offer letter, but are subject to further adjustment at the discretion of the Compensation Committee when it deems such adjustment to be appropriate in connection with changes in responsibility, actual performance or the need for special recognition. The target bonus percentages that the Company set for 2008 for the positions of Vice President and above and the portions of the bonus that are tied to Company and individual goals are set forth in the table below.

Eligibility Group	Target Bonus Percentage of Base Salary	Percentage Tied to Achievement of Company Goals	Percentage Tied to Achievement of Individual Goals
President and CEO	50%	100%	0%
Executive and Senior Vice President	40%	75%	25%
Vice President (Executive Officer)	35%	75%	25%

Our bonus program is designed to enable us to attract talented executives and add an additional compensation incentive in the form of variable pay. As part of the annual review process, performance of each executive is evaluated against the objectives that were mutually established by the executive and our President and Chief Executive Officer. A determination is made by the Compensation Committee as to the percent of the goals achieved by the Company, and by our President and Chief Executive Officer as to the percent of the individual goals achieved by the executive, and the bonus is calculated based on these percentages, subject to adjustment in the Compensation Committee's

discretion. Bonus awards are generally prorated for individuals who joined the Company during the applicable year.

Bonus Payments in 2008

In determining bonus and other compensation of executive officers for 2008, the Compensation Committee utilized its discretion in determining whether the 2008 Company Goals were met in the aggregate. The Compensation Committee involved the full Board of Directors in its deliberations regarding bonus compensation for

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2008. In determining bonus compensation, Compensation Committee took into account the achievement of the 2008 Company Goals, the decision to discontinue the Trizytek program and focus development efforts on ALTU-238, the importance of retaining and motivating our employees including our executive officers, our constrained financial resources and general economic conditions, including the current capital raising environment. In light of these factors, the Compensation Committee determined that, despite achieving the 2008 Company Goals at the 90% level, the best allocation of our existing resources would be to focus on the development of ALTU-238 and make employment decisions based on retaining and providing sufficient incentives to continuing employees to build future shareholder value. Therefore, it determined not to pay any bonuses for fiscal 2008. Because of this decision, the Compensation Committee determined that it was not material to review the achievement of individual goals of the Company's executive officers for 2008 for purposes of determining bonus compensation.

Bonus Compensation for 2009

We anticipate that bonus compensation in 2009 will again be based on the achievement of Company goals and individual goals for the employee. We have set the target bonus percentages for the positions of Vice President and above for 2009, which will be similar to those set forth in the table above, except that all Vice Presidents will have a Target Bonus Percentage of 25% of their Base Salaries. Because of the strategic alignment of the Company announced in January 2009, the Company has not yet completed establishing its goals for 2009. Once this process is completed, the process for setting individual goals will begin.

Long-Term Incentives

We believe that long-term performance is achieved through an ownership culture that encourages long-term participation by our executive officers in equity-based awards, in the form of stock options. Our Amended and Restated 2002 Employee, Director and Consultant Stock Plan, as amended, or our 2002 Stock Plan, allows the grant to executive officers of stock options, restricted stock, and other equity-based awards. Unless otherwise stated below, these options have an exercise price equal to the closing price of our common stock on the date of grant, and have a four-year vesting schedule with 1/16th of the shares vesting on the last day of each successive three-month period following the date of grant. To date, we have only granted stock options but we may consider the possibility of granting other types of equity awards as our business strategy evolves. We typically make an initial stock option award to newly hired executives and performance-based awards as part of our overall compensation program as well as option grants to reflect promotions, as necessary.

Initial Stock Option Awards

Executives who join us are awarded an initial stock option grant. The date of grant for these options is generally the first day of the officer's employment. In the case of stock options granted to Dr. Gemayel when he joined the Company in June 2008, the first 25 percent of such options will vest on the first anniversary of Dr. Gemayel's employment with the Company, and the remaining 75 percent will vest quarterly over the following three years. The amount of the initial stock option award is determined based on the executive's position with us and an analysis of the competitive practices of the companies similar in size to us represented in the compensation data that we review with the goal of creating a total compensation package for new employees that is competitive with other biotechnology companies and that will enable us to attract high quality people. Our President and Chief Executive Officer is authorized by the Compensation Committee to make initial stock option grants to non-executive employees within certain parameters, beyond which Compensation Committee approval is required.

Annual Stock Option Awards

Our practice is to make annual stock option awards as part of our overall performance management program to executives who meet or exceed a certain threshold merit rating. The Compensation Committee believes that stock options provide management with a strong link to long-term corporate performance and the creation of stockholder value. As is the case when the amounts of base salary and initial option awards are determined, a review of all components of the executive's compensation is conducted when determining annual option awards to ensure that an executive's total compensation conforms to our overall philosophy and objectives. A pool of options is reserved for executives and non-executives based on setting a target grant level for each employee category, with the higher ranked employees being eligible for a higher target grant. Annual performance option grants are prorated for employees who were employed for only part of the fiscal year. The timing of these grants is not coordinated with the public release of

nonpublic material information.

Promotion Grants

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If an executive receives a promotion during the year, at the time the Compensation Committee reviews our annual recommendations for compensation adjustments, we also recommend that the Compensation Committee approve stock option grants to reflect the promotion. Promotion grants may also be awarded at the discretion of the Compensation Committee at the time of promotion. In May 2008, Mr. Lieber was promoted to Senior Vice President, Chief Financial Officer and Treasurer and received a promotion grant of 45,000 stock options; Dr. Blank received a promotion grant of 50,000 stock options in connection with his promotion to Executive Vice President and Chief Medical Officer; and Dr. Gotwals received a promotion grant of 35,000 stock options in connection with his appointment to the Executive Management Team. The method for determining each promotion grant is based on the numbers used for determining an initial stock option grant for the position and determining the difference in the midpoint of the new job code from the existing job code.

Stock Option Grants in 2008

On February 25, 2008, the Compensation Committee granted our executive officers option awards as of part of the Compensation Committee's annual stock option grants to all of our officers and employees. These awards represented compensation for performance in 2007, were awarded under our 2002 Stock Plan and vest as to 1/16th of the shares on the last day of each successive three-month period following January 1, 2008. These options were granted with an exercise price of \$5.72, the closing price of our common stock on February 25, 2008.

Stock Option Grants in 2009

As part of our strategic realignment, the Board of Directors approved the granting of new stock option awards to continuing employees, including our continuing executive officers, on January 27, 2009 to provide ongoing incentives to create stockholder value as we develop ALTU-238. In determining the amount of these options, the Compensation Committee considered that there had been no salary increases or bonuses for employees or executive officers at the end of 2008. These were awarded under our 2002 Stock Plan and vest as to 1/16th of the shares on the last day of each successive three-month period following the date of grant and were granted with an exercise price of \$0.22, the closing price of our common stock on January 27, 2009. Our continuing officers received the following awards: to Dr. Gemayel, options to purchase 1,000,000 shares, which consisted of an option award to purchase 560,000 shares awarded on January 27, 2009 and the repricing of options to purchase 440,000 shares on February 19, 2009 at an exercise price of \$0.19; and to Drs. Attie and Porter and Mr. Phair, options to purchase 250,000 shares.

Other Compensation

We maintain broad-based benefits and perquisites that are provided to all employees, including health insurance, life and disability insurance, dental insurance and a 401(k) plan. In particular circumstances, we also utilize cash signing bonuses when certain executives and senior non-executives join us. Such cash signing bonuses are typically repayable in full to the Company if the recipient voluntarily terminates employment with us prior to the first anniversary of the date of hire and are repayable in part if the recipient voluntarily terminates employment with us between the first anniversary and the second anniversary of the date of hire. Whether a signing bonus is paid and the amount thereof is determined on a case-by-case basis under the specific hiring circumstances. In addition, we may assist with certain expenses associated with an executive joining and maintaining their employment with us. For example, we reimbursed our former President and Chief Executive Officer for commuting costs, which we believe facilitated his ability to conduct business activities on behalf of the Company. Also, in 2008, because our Vice President of Commercial Development relocated to join the company, we reimbursed her for her housing costs. We have also provided tax reimbursement compensation associated with these taxable benefits.

We believe these forms of compensation create additional incentives for an executive to join our Company in a position where there is high market demand. These forms of compensation have been, to date, recommended by our President and Chief Executive Officer and approved by the Compensation Committee in its discretion, and are typically structured to not exceed certain monetary amounts and/or time periods. These forms of compensation are generally subject to repayment on a pro-rata basis if the executive terminates his or her employment within one or two years of their date of hire.

Compensation of our President and Chief Executive Officer

On June 2, 2008, in connection with Dr. Gemayel's appointment as President and Chief Executive Officer, the Company extended an offer letter (the Offer Letter) to Dr. Gemayel and entered into a Severance and Change in

Control Agreement. The Offer Letter entitles Dr. Gemayel to receive an annual base salary of \$540,000. As

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disclosed above, Dr. Gemayel also has the opportunity to earn an annual performance bonus of up to 50% (which may be increased at the discretion of the Compensation Committee) of his earned salary, based on the achievement of a series of personal and Company objectives that the Compensation Committee and Dr. Gemayel will define annually. Pursuant to the Offer Letter, Dr. Gemayel is also entitled to participate in employee benefits offered by the Company to its executive employees.

In addition Dr. Gemayel was granted stock options to purchase up to 900,000 shares of common stock at an exercise price per share \$4.07 per share, 440,000 of which were repriced in connection with our strategic realignment as described above under *Long Term Compensation*.

Dr. Gemayel's employment arrangement was negotiated at arms-length with the Board of Directors and the Compensation Committee. The Compensation Committee believes that Dr. Gemayel's compensation is reasonable based on peer group surveys of local and national biotechnology companies and input from the recruiting firm we retained in connection with our search for a new chief executive officer. The Compensation Committee believes Dr. Gemayel's compensation package effectively links shareholder and Company performance to Dr. Gemayel's total compensation through the use of long-term awards and cash compensation.

Termination-based Compensation

Severance and Change in Control Agreements

The Compensation Committee recognizes that executives, especially highly ranked executives, often face challenges securing new employment following termination. Based on these determinations, the Compensation Committee has approved severance and change in control arrangements with each of our executive officers. In particular, the Compensation Committee and the Board of Directors has determined that the retention of our executive team over the next 18-24 months is critically important to our success in creating stockholder value in the development of ALTU-238 and that severance and change in control agreements provide a significant incentive in retaining our executive team during the present uncertainty with respect to our financial position. Therefore, as part of the overall compensation of our executive officers, the Board approved the terms of a severance policy for all non-executive employees continuing with the Company and approved amendments to the severance and change in control agreements of our continuing executive officers other than Dr. Gemayel that entitle the executives to receive, upon termination other than for cause, payments equal to twelve months of the executive's then-current salary if he or she is terminated. The severance and change in control agreements include the officer's agreement regarding non-competition and non-solicitation for the applicable severance period following termination. Receipt of any benefits at the time of termination is further conditioned on the executive officer executing a written release of us from any and all claims arising in connection with his or her employment. The amounts payable under the severance policy for non-executive employees has been placed in a collateralized account for the benefit of such employees. As a public company, we have continued to review the practices of companies similar to us, and we believe that the terms of the severance and change in control arrangements with our executive officers are generally in line with severance packages offered to chief executive officers and other executive officers of the public companies of similar size to us represented.

In connection with Mr. Berkle's resignation on February 4, 2008, we entered into a separation agreement with Mr. Berkle, pursuant to which he is entitled to receive the payments and benefits set forth in his severance and change in control agreement and his employment agreement, as well as certain additional payments negotiated at the time of his resignation. The Compensation Committee approved the payment of a \$166,250 cash bonus to Mr. Berkle related to his services during the fiscal year ended December 31, 2007. The Compensation Committee determined that it was appropriate to award this bonus payment to Mr. Berkle, because he would have received a cash bonus in this amount based on the percentage of Company goals that were achieved during 2007 had he not resigned in February 2008.

The specific terms of these agreements are further described below under *Potential Payments upon Termination or Change in Control - Severance and Change of Control Agreements*.

Acceleration of Vesting of Stock Option Awards

Pursuant to our stock option agreements with our executive officers, in the event of a change in control, as defined in our 2002 Stock Plan, the vesting of outstanding stock option awards held by these executive officers will accelerate if the executive officer is terminated for certain reasons after a change in control, which we refer to as

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double trigger acceleration. See *Potential Payments upon Termination or Change in Control* *Change in Control Arrangements Under Our 2002 Stock Plan* below for a detailed discussion of these provisions. We believe a double trigger requirement maximizes stockholder value because it prevents an unintended windfall to management in the event of a friendly, or non-hostile, change in control. Under this structure, unvested option awards under our 2002 Stock Plan would continue to provide our executives with the incentive to remain with the Company after a friendly change in control.

Conclusion

Our compensation policies are designed to retain and motivate our senior executive officers and to ultimately reward them for outstanding individual and corporate performance.

Summary Compensation Table

The following table shows the compensation paid or accrued during the fiscal years ended December 31, 2006, 2007 and 2008 to (1) our President and Chief Executive Officer, (2) our Chief Financial Officer, (3) our three most highly compensated executive officers, other than our President and Chief Executive Officer and our Chief Financial Officer, our Former Chief Executive Officer and Executive Chairman, who served in their respective position during a portion of 2008 and one other additional executive officer who was not employed by us at December 31, 2008, but whose total compensation during 2008 was among the three most highly compensated executive officers, other than our President and Chief Executive Officer and our Chief Financial Officer.

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Option Awards (\$)(1)	All Other Compensation (\$)	Total (\$)
George Gemayel, Ph.D. President and Chief Executive Officer	2008	311,538		344,616	6,048 (2)	662,202
Jonathan I. Lieber Senior Vice President, Chief Financial Officer and Treasurer	2008	293,921		253,094	11,646 (3)	558,661
	2007	268,500	71,656	241,741	11,427	593,324
	2006	250,000	70,000	96,419	11,196	427,615
Burkhard Blank, M.D. Executive Vice President and Chief Medical Officer	2008	413,728		795,670	11,646 (4)	1,221,044
	2007	379,849	151,828	723,260	55,483	1,310,420
	2006	206,365	215,408	379,911	77,718	879,402
John M. Sorvillo, Ph.D. Vice President, Business Development	2008	262,011		384,372	11,646 (5)	658,029
	2007	251,940	63,930	367,215	11,427	694,512
Philip J. Gotwals Ph.D. Vice President, Program Management	2008	267,701		199,679	11,646 (6)	479,026
David D. Pendergast, Ph.D. (7) Former Executive Chairman	2008	98,077	37,500 (8)	399,569	48,622 (9)	583,768
Sheldon Berkle Former President and Chief Executive Officer	2008	47,500		175,293	438,411 (10)	661,204
	2007	475,000	166,250	596,364	36,429	1,274,043
	2006	412,000	164,800	283,318	35,766	895,884

Lauren Sabella	2008	219,073	18,693 (11)	524,135	116,740 (12)	878,641
Former Vice President,						
Commercial	2007	273,878	73,091	681,665	67,840	1,096,474
Development	2006	178,362	224,200	415,315	62,589	880,466

(1) See Notes 3 and 16 to our audited consolidated financial statements for the year ended December 31, 2008 included in the Annual Report for details as to the assumptions used to determine the fair value of the option awards and Note 16 to our audited consolidated financial statements for the year ended December 31, 2008

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included in the Annual Report describing all forfeitures during the year ended December 31, 2008. Our executive officers will not realize the value of these awards in cash until these awards are exercised and the underlying shares are subsequently sold. See also our discussion of stock-based compensation under

Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Significant Judgments and Estimates in the Annual Report.

- (2) Consists of \$5,400 in matching contributions made under our 401(k) plan and \$648 in life and long-term disability insurance premiums.

- (3) Consists of \$10,350 in matching contributions made under our 401(k) plan and \$1,296 in life and long-term disability insurance premiums.
- (4) Consists of \$10,350 in matching contributions made under our 401(k) plan and \$1,296 in life and long-term disability insurance premiums.
- (5) Consists of \$10,350 in matching contributions made under our 401(k) plan and \$1,296 in life and long-term disability insurance premiums.
- (6) Consists of \$10,350 in matching contributions made under our 401(k) plan and \$1,296 in life and long-term disability insurance premiums.
- (7) Dr. Pendergast served as our

Executive
Chairman from
February 4,
2008 through
June 2, 2008.

- (8) Represents a cash bonus for performance during the period which Dr. Pendergast held the position of Executive Chairman.
- (9) Consists of \$5,582 in matching contributions made under our 401(k) plan, \$540 in life and long-term disability insurance premiums and \$42,500 in fees paid to Dr. Pendergast (of which \$10,000 was paid in 2009) under our director compensation policy for his services on our Board of Directors in 2008.
- (10) Consists of \$420,192 in severance costs, \$481 for payment of accrued but unused vacation, \$2,399

in matching contributions made under our 401(k) plan, \$216 in life and long-term disability insurance premiums and \$15,123 for the reimbursement of moving related costs incurred by Mr. Berkle.

(11) Represents a cash bonus for performance during the portion of 2008 which Ms. Sabella was an employee.

(12) Consists of \$65,735 in severance costs, \$1,013 for payment of accrued but unused vacation, \$10,350 in matching contributions made under our 401(k) plan, \$972 in life and long-term disability insurance premiums and \$38,670 for the reimbursement of housing related costs incurred by Ms. Sabella.

2008 Grants of Plan-Based Awards

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The following table shows information regarding grants of equity awards during the fiscal year ended December 31, 2008 to the executive officers named in the Summary Compensation Table above.

Name	Grant Date	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards (\$/Sh)	Grant Date Fair Value of Stock and Option Awards (1)
Georges Gemayel, Ph.D. President and Chief Executive Officer	6/2/08	900,000 (2)	4.07	2,373,300
Jonathan I. Lieber Senior Vice President, Chief Financial Officer and Treasurer	2/25/08 5/22/08	28,000 (3) 45,000 (4)	5.72 4.41	109,474 127,908
Burkhard Blank, M.D. Executive Vice President and Chief Medical Officer	1/10/08 2/25/08 5/22/08	50,000 (5) 17,500 (3) 12,500 (6)	5.87 5.72 4.41	201,020 68,422 35,530

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**All Other
Option**

**Awards:
Number
of**

**Exercise
or**

**Grant
Date**