

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)



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

For the quarterly period ended March 31, 2010

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: 001-33637

Cumberland Pharmaceuticals Inc.

(Exact name of registrant as specified in its charter)

Tennessee

(State or other jurisdiction
of incorporation or organization)

62-1765329

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

2525 West End Avenue, Suite 950, Nashville, Tennessee

(Address of principal executive offices)

37203

(Zipcode)

(615) 255-0068

(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 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.

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☒

Smaller reporting company ☐

(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class

Common stock, no par value

Outstanding at May 7, 2010

20,437,176

CUMBERLAND PHARMACEUTICALS INC.
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PART I — FINANCIAL INFORMATION

Item 1: Financial Statements

CUMBERLAND PHARMACEUTICALS INC. AND SUBSIDIARIES Condensed Consolidated Balance Sheets (Unaudited)

| | March 31, 2010 | December 31, 2009 |
|--|---------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$73,752,814 | \$ 78,701,682 |
| Accounts receivable, net of allowances | 3,814,947 | 6,176,585 |
| Inventories | 7,406,402 | 4,822,873 |
| Other current assets | 3,369,809 | 3,472,455 |
| Total current assets | 88,343,972 | 93,173,595 |
| Property and equipment, net | 948,580 | 918,412 |
| Intangible assets, net | 7,818,394 | 7,956,009 |
| Other assets | 1,578,723 | 1,676,304 |
| Total assets | <u>\$98,689,669</u> | <u>\$103,724,320</u> |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Current portion of long-term debt | \$ 6,000,000 | \$ 9,061,973 |
| Current portion of other long-term obligations | 88,739 | 144,828 |
| Accounts payable | 6,813,974 | 5,632,796 |
| Other accrued liabilities | 2,556,585 | 3,784,777 |
| Total current liabilities | 15,459,298 | 18,624,374 |
| Revolving line of credit | 1,825,951 | 1,825,951 |
| Long-term debt, excluding current portion | 7,438,027 | 8,938,027 |
| Other long-term obligations, excluding current portion | 181,455 | 184,632 |
| Total liabilities | <u>24,904,731</u> | <u>29,572,984</u> |
| Commitments and contingencies | | |
| Redeemable common stock | 100,000 | 1,930,000 |
| Equity: | | |
| Shareholders' equity: | | |
| Common stock — no par value; 100,000,000 shares authorized; 20,413,605 ⁽¹⁾ and 20,180,486 ⁽¹⁾ shares issued and outstanding as of March 31, 2010 and December 31, 2009, respectively | 68,861,850 | 67,711,746 |
| Retained earnings | 4,865,704 | 4,542,126 |
| Total shareholders' equity | <u>73,727,554</u> | <u>72,253,872</u> |
| Noncontrolling interests | (42,616) | (32,536) |
| Total equity | <u>73,684,938</u> | <u>72,221,336</u> |
| Total liabilities and equity | <u>\$98,689,669</u> | <u>\$103,724,320</u> |

(1) Number of shares issued and outstanding represent total shares of common stock regardless of classification on the consolidated balance sheet. The number of shares of redeemable common stock at March 31, 2010 and December 31, 2009 was 9,497 and 142,016, respectively.

See accompanying notes to unaudited condensed consolidated financial statements.

CUMBERLAND PHARMACEUTICALS INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Income
(Unaudited)

| | <u>Three Months Ended March 31,</u> | |
|--|-------------------------------------|---------------------|
| | <u>2010</u> | <u>2009</u> |
| Net revenues | \$10,130,652 | \$ 9,404,599 |
| Costs and expenses: | | |
| Cost of products sold | 859,288 | 733,218 |
| Selling and marketing | 5,607,512 | 4,140,187 |
| Research and development | 773,868 | 770,117 |
| General and administrative | 1,881,203 | 1,444,863 |
| Amortization of product license right | 171,726 | 171,726 |
| Other | 26,547 | 27,463 |
| Total costs and expenses | <u>9,320,144</u> | <u>7,287,574</u> |
| Operating income | 810,508 | 2,117,025 |
| Interest income | 60,679 | 17,596 |
| Interest expense | <u>(345,952)</u> | <u>(97,711)</u> |
| Income before income tax expense | 525,235 | 2,036,910 |
| Income tax expense | <u>(211,737)</u> | <u>(831,059)</u> |
| Net income | 313,498 | 1,205,851 |
| Net loss attributable to noncontrolling interests | <u>10,080</u> | <u>12,239</u> |
| Net income attributable to common shareholders | <u>\$ 323,578</u> | <u>\$ 1,218,090</u> |
| Earnings per share attributable to common shareholders | | |
| - Basic | \$ 0.02 | \$ 0.12 |
| - Diluted | \$ 0.02 | \$ 0.08 |
| Weighted-average shares outstanding | | |
| - Basic | 20,233,267 | 10,321,175 |
| - Diluted | 21,395,419 | 16,127,240 |

See accompanying notes to unaudited condensed consolidated financial statements.

CUMBERLAND PHARMACEUTICALS INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(Unaudited)

| | Three Months Ended March 31, | |
|--|-------------------------------------|---------------------|
| | 2010 | 2009 |
| Cash flows from operating activities: | | |
| Net income | \$ 313,498 | \$ 1,205,851 |
| Adjustments to reconcile net income to net cash flows from operating activities: | | |
| Depreciation and amortization expense | 231,332 | 196,059 |
| Nonemployee equity compensation | 3,972 | 37,760 |
| Stock-based compensation — employee stock options | 130,915 | 143,902 |
| Excess tax benefit derived from exercise of stock options | (206,418) | (2,842,825) |
| Noncash interest expense | 67,380 | 14,256 |
| Net changes in assets and liabilities affecting operating activities: | | |
| Accounts receivable | 2,361,638 | (267,892) |
| Inventory | (2,583,529) | 415,948 |
| Other current assets and other assets | 132,847 | 955,169 |
| Accounts payable and other accrued liabilities | 127,104 | (1,187,558) |
| Other long-term obligations | (59,266) | (405,801) |
| Net cash provided by (used in) operating activities | <u>519,473</u> | <u>(1,735,131)</u> |
| Cash flows from investing activities: | | |
| Additions to property and equipment | (64,085) | (15,601) |
| Additions to patents | — | (16,345) |
| Net cash used in investment activities | <u>(64,085)</u> | <u>(31,946)</u> |
| Cash flows from financing activities: | | |
| Costs of initial public offering | — | (114,428) |
| Principal payments on note payable | (4,561,973) | — |
| Costs of financing for long-term debt and credit facility | (27,500) | (15,475) |
| Proceeds from exercise of stock options | 807,496 | 4,296 |
| Excess tax benefit derived from exercise of stock options | 206,418 | 2,842,825 |
| Payments made in connection with repurchase of common shares | (1,828,697) | (2,707,419) |
| Net cash (used in) provided by financing activities | <u>(5,404,256)</u> | <u>9,799</u> |
| Net decrease in cash and cash equivalents | (4,948,868) | (1,757,278) |
| Cash and cash equivalents at beginning of period | <u>78,701,682</u> | <u>11,829,551</u> |
| Cash and cash equivalents at end of period | <u>\$73,752,814</u> | <u>\$10,072,273</u> |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the year for: | | |
| Interest | \$ 276,288 | \$ 33,517 |
| Income taxes | 12,376 | 80,000 |
| Non-cash investing and financing activities: | | |
| Increase in accounts payable and accrued expenses of initial public offering | — | 5,311 |

See accompanying notes to unaudited condensed consolidated financial statements.

CUMBERLAND PHARMACEUTICALS INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Equity and Comprehensive Income
(Unaudited)

| | <u>Common stock</u> | | <u>Retained earnings</u> | <u>Non-controlling interests</u> | <u>Total equity</u> |
|---|---------------------|---------------------|--------------------------|----------------------------------|---------------------|
| | <u>Shares</u> | <u>Amount</u> | | | |
| Balance, December 31, 2009 | 20,180,486 | \$67,711,746 | \$4,542,126 | \$ (32,536) | \$72,221,336 |
| Stock-based compensation - nonemployees | — | 3,972 | — | — | 3,972 |
| Exercise of options and related tax benefit, net of mature shares redeemed for the exercise price | 386,662 | 1,013,914 | — | — | 1,013,914 |
| Stock-based compensation - employees | — | 130,915 | — | — | 130,915 |
| Repurchase of shares | (153,543) | (1,828,697) | — | — | (1,828,697) |
| Reclass of redeemable common stock | — | 1,830,000 | — | — | 1,830,000 |
| Net and comprehensive income | — | — | 323,578 | (10,080) | 313,498 |
| Balance, March 31, 2010 | <u>20,413,605</u> | <u>\$68,861,850</u> | <u>\$4,865,704</u> | <u>\$ (42,616)</u> | <u>\$73,684,938</u> |

See accompanying notes to unaudited condensed consolidated financial statements.

CUMBERLAND PHARMACEUTICALS INC. AND SUBSIDIARIES
Notes to condensed consolidated financial statements
(unaudited)

(1) BASIS OF PRESENTATION

In the opinion of management, the accompanying unaudited condensed consolidated financial statements ("condensed consolidated financial statements") of Cumberland Pharmaceuticals Inc. and its subsidiaries (collectively, the "Company" or "Cumberland") have been prepared on a basis consistent with the December 31, 2009 audited consolidated financial statements and include all adjustments, consisting of only normal recurring adjustments, necessary to fairly present the information set forth herein. All significant intercompany accounts and transactions have been eliminated in consolidation. The condensed consolidated financial statements have been prepared in accordance with the regulations of the Securities and Exchange Commission, or SEC, and omit certain information and footnote disclosure necessary to present the statements in accordance with U.S. generally accepted accounting principles. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2009. The results of operations for the first three months of 2010 are not necessarily indicative of the results to be expected for the entire fiscal year or any future period.

Total comprehensive income was comprised solely of net income for the three months ended March 31, 2010 and 2009.

Accounting Policies:

In preparing the condensed consolidated financial statements in conformity with U.S. generally accepted accounting principles, management must make decisions that impact the reported amounts and the related disclosures. Such decisions include the selection of the appropriate accounting principles to be applied and the assumptions on which to base accounting estimates. In reaching such decisions, management applies judgments based on its understanding and analysis of the relevant circumstances, historical experience, and other available information. Actual amounts could differ from those estimated at the time the condensed consolidated financial statements are prepared.

The Company has evaluated events occurring subsequent to March 31, 2010 for accounting and disclosure implications.

(2) EARNINGS PER SHARE

The following table reconciles the numerator and denominator used to calculate diluted earnings per share for the three months ended March 31, 2010 and 2009:

| | Three Months Ended March 31, | |
|--|-------------------------------------|-------------------|
| | 2010 | 2009 |
| Numerator: | | |
| Net income attributable to common shareholders | \$ 323,578 | \$ 1,218,090 |
| Denominator: | | |
| Weighted-average shares outstanding — basic | 20,233,267 | 10,321,175 |
| Convertible preferred stock shares | — | 1,625,498 |
| Dilutive effect of other securities | 1,162,152 | 4,180,567 |
| Weighted-average shares outstanding — diluted | <u>21,395,419</u> | <u>16,127,240</u> |

As of March 31, 2010 and 2009, options to purchase 541,522 and 344,587 shares of common stock, respectively, were outstanding but were not included in the computation of diluted EPS because the effect would be antidilutive.

CUMBERLAND PHARMACEUTICALS INC. AND SUBSIDIARIES
Notes to condensed consolidated financial statements — continued
(unaudited)

(3) SEGMENT REPORTING

We operate in one segment, specialty pharmaceutical products. Management has chosen to organize the Company based on the type of products sold. All of the Company's assets are located in the United States. The Company had sales of less than \$0.1 million to non-U.S. customers during the three months ended March 31, 2010 and \$0.7 million during the three month period ended March 31, 2009.

The Company's net revenues consisted of the following for the three months ended March 31, 2010 and 2009:

| | <u>Three Months Ended March 31,</u> | |
|--------------------|-------------------------------------|--------------------|
| | <u>2010</u> | <u>2009</u> |
| Products: | | |
| Acetadote | \$ 7,723,273 | \$7,133,430 |
| Kristalose | 2,309,982 | 2,228,615 |
| Caldolor | 19,305 | — |
| Other | 78,092 | 42,554 |
| Total net revenues | <u>\$10,130,652</u> | <u>\$9,404,599</u> |

(4) SHAREHOLDERS' EQUITY

In February 2010, the Company repurchased 153,543 shares of common stock totaling \$1.8 million for the settlement of tax liabilities associated with the exercise of certain options in 2009. As of December 31, 2009, this amount was included in redeemable common stock in the condensed consolidated balance sheet. The repurchase amount was based on the fair-market value of common stock on the date of settlement.

During the first quarter of 2010, options to purchase 394,456 shares of common stock were exercised. In connection with an exercise, 7,794 shares of mature stock was tendered as consideration for the exercise price. The exercise of these options created a tax deduction of approximately \$3.6 million, of which approximately \$0.5 million was used to offset the estimated tax liability resulting from the results of operations for the three months ended March 31, 2010. As of March 31, 2010, the Company has unrecognized tax deductions of approximately \$68.6 million that will be recognized when the deduction reduces income taxes payable.

(5) COLLABORATIVE AGREEMENTS

The Company is a party to several collaborative arrangements with certain research institutions to identify and pursue promising pre-clinical pharmaceutical product candidates. The Company has determined these collaborative agreements do not meet the criteria for accounting under Accounting Standards Codification 808, *Collaborative Agreements*. The agreements do not specifically designate each party's rights and obligations to each other under the collaborative arrangements. Except for patent defense costs, expenses incurred by one party are not required to be reimbursed by the other party. The funding for these programs is generally provided through private sector investments or federal Small Business (SBIR/STTR) grant programs. Expenses incurred under these collaborative agreements are included in research and development expenses in the condensed consolidated statements of income. Funding received from private sector investments and grants are recorded as net revenues in the condensed consolidated statements of income.

(6) SUBSEQUENT EVENTS

In May 2010, the Board of Directors authorized the repurchase of up to \$10 million of common stock. Repurchases will be made from time to time on the open market over a number of months and will be funded through excess cash flow.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion contains certain forward-looking statements which reflect management's current views of future events and operations. These statements involve certain risks and uncertainties, and actual results may differ materially from them. Forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. We caution you that our actual results may differ significantly from the results we discuss in these forward looking statements. Some important factors which may cause results to differ from expectations include: availability of additional debt and equity capital required to finance the business model; market conditions at the time additional capital is required; significant leverage and debt service requirements of the Company; our ability to continue to acquire branded products; product sales; and management of our growth and integration of our acquisitions. Other important factors that may cause actual results to differ materially from forward-looking statements are discussed in "Risk Factors" on pages 20 through 32 and "Special note regarding forward-looking statements" on page 32 of our Annual Report on Form 10-K for the year ended December 31, 2009. The Company does not undertake to publicly update or revise any of its forward-looking statements, even in the event that experience or future changes indicate that the anticipated results will not be realized. The following presentation of management's discussion and analysis of financial condition and results of operations should be read in conjunction with the Company's unaudited condensed consolidated financial statements and related notes thereto included in this Form 10-Q.

OVERVIEW

Our Business

We are a profitable and growing specialty pharmaceutical company focused on the acquisition, development and commercialization of branded prescription products. Our primary target markets are hospital acute care and gastroenterology, which are characterized by relatively concentrated physician bases that we believe can be penetrated effectively by relatively small, targeted sales forces. Cumberland is dedicated to providing innovative products which improve quality of care for patients.

Our product portfolio includes Acetadote® (*acetylcysteine*) Injection for the treatment of acetaminophen poisoning, Caldolor® (*ibuprofen*) Injection, the first injectable treatment for pain and fever available in the United States, and Kristalose® (*lactulose*) for Oral Solution, a prescription laxative. We market and sell our products through our dedicated hospital and gastroenterology sales forces in the United States, and are working with partners to reach international markets.

We have both product development and commercialization capabilities, and believe we can leverage our existing infrastructure to support our expected growth. Our management team consists of pharmaceutical industry veterans experienced in business development, product development, sales and marketing and finance and accounting. Our internal product development and regulatory executives develop proprietary product formulations, design and manage our clinical trials, prepare all regulatory submissions and manage our medical call center. Cumberland's operations and quality affairs professionals play an active role in the manufacture of our products by our manufacturing partners. All aspects of commercialization are handled by our sales and marketing professionals, and we work closely with our distribution partner to make our products available across the United States.

We have been profitable since 2004, and have generated sufficient cash flows to fund our development and marketing programs. In 2009, we completed an initial public offering of our common stock to help facilitate further growth. Our strategy includes maximizing the potential of our existing products and continuing to build a portfolio of new, differentiated products. Our current products are approved for sale in the United States, and we are working to bring them to select international markets. We also look for opportunities to expand into additional patient populations through new product indications, whether through our own resources or by supporting investigator-initiated studies at research institutions. We actively pursue opportunities to acquire additional late-stage development product candidates as well as marketed products in our target medical specialties. Further, we are supplementing the aforementioned growth strategies through the early-stage drug development activities of Cumberland Emerging Technologies (CET), our majority-owned subsidiary. CET partners with university research centers to

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identify and cost-effectively develop promising, early-stage product candidates that Cumberland Pharmaceuticals has the opportunity to commercialize.

We were incorporated in 1999 and have been headquartered in Nashville, Tennessee since inception. Our website address is www.cumberlandpharma.com. We make available through our website our annual reports on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K and any amendments, as well as other documents, as soon as reasonably practicable after their filing with the SEC. These filings are also available to the public through the Internet of the SEC, at www.sec.gov.

Recent Developments

Acetadote®

Supplemental New Drug Application

In March 2010, we submitted a supplemental new drug application (sNDA) to the U.S. Food and Drug Administration (FDA) for the use of Acetadote in patients with non-acetaminophen acute liver failure. The sNDA includes data from a clinical trial led by investigators at the University of Texas Southwestern Medical Center indicating that acute liver failure patients treated with Acetadote have a significantly improved chance of survival without a transplant. These patients can also survive a significant number of days longer without transplant, providing patients requiring transplant increased time for a donor organ to become available.

Acute liver failure is associated with a high mortality rate and frequent need for liver transplantation. Approximately half of acute liver failure cases are caused by acetaminophen poisoning while the other half result from a variety of causes including hepatitis and alcohol. Currently, transplantation of the liver is the only treatment for patients with liver failure not caused by acetaminophen overdose.

In May 2010, the FDA officially accepted the sNDA and granted a priority review. In addition to expanded labeling for Acetadote, we have requested additional exclusivity for the product. If approved, we expect to begin marketing Acetadote with the new indication in 2011.

Australian Regulatory Approval

In April 2010, the Therapeutic Goods Administration approved Acetadote for marketing in Australia. We previously granted an exclusive license to Phebra Pty Ltd., an Australian-based specialty pharmaceutical company, to commercialize Acetadote in Australia. Phebra is now preparing for the Australian launch of the product, which it expects to commence this year.

Under our agreement, Phebra is responsible for ongoing regulatory requirements, marketing, distribution and sales of Acetadote in Australia while we maintain responsibility for product formulation, development and manufacturing. In exchange for the product license, Cumberland receives upfront and milestone payments, a transfer price and royalties on future sales.

Caldolor®

License Agreement for Canada

In April 2010, we entered into an exclusive agreement with Alveda Pharmaceuticals Inc., a Toronto-based specialty pharmaceutical company, for the commercialization of Caldolor in Canada. Under the agreement, Alveda will seek Canadian regulatory approval for Caldolor and, upon approval, will handle ongoing regulatory requirements as well as product marketing, distribution and sales throughout Canada. Cumberland will maintain responsibility for product formulation, development and manufacturing. In exchange for the license to the product, Cumberland will receive royalties on future sales of Caldolor in addition to upfront and milestone payments as well as a transfer price.

Compassionate Use in Australia

In December 2009, we entered into an exclusive agreement with Phebra Pty Ltd. for distribution of Caldolor in Australia and New Zealand. As of April 2010, Phebra has made the product available in Australia on a limited, compassionate use basis. The Therapeutics Goods Administration (TGA), which regulates drugs and medical devices in Australia, operates compassionate use programs that allow patients with critical clinical need to access products not yet approved through their medical practitioner. Phebra is also planning to submit an application to the TGA for regulatory approval of Caldolor.

RECENT LEGISLATION

On March 23, 2010, President Obama signed into law the Patient Protection and Affordable Care Act, or PPACA. On March 30, 2010, the Health Care and Education Reconciliation Act of 2010, or HCERA, was enacted into law, which modified the revenue provisions of the PPACA. The PPACA as amended by the HCERA constitutes the healthcare reform legislation. The following highlights certain provisions of the legislation that may affect us in the future.

Pharmaceutical Industry Fee

Beginning in calendar-year 2011, an annual fee will be imposed on pharmaceutical manufacturers and importers that sell branded prescription drugs to specified government programs (e.g., Medicare Part D, Medicare Part B, Medicaid, Department of Veterans Affairs programs, Department of Defense programs and TRICARE). The annual fee will be allocated to companies based on their previous calendar-year market share using sales data that the government agencies that purchase the pharmaceuticals will provide to the Treasury Department. We participate in minimal governmental programs that would subject us to this fee. The first \$5.0 million of sales to government programs is exempted from the fee. Our current sales volume to government programs is estimated to be less than \$5.0 million and, thus, we do not anticipate being impacted by this fee.

Medicaid Rebate Rate

We currently provide rebates for Kristalose sold to Medicaid beneficiaries. Effective January 1, 2010, the rebate increased from 11 percent to 13 percent of the average manufacturer price, or AMP. We do not have a significant volume of Kristalose sales to Medicaid beneficiaries and, thus, the impact on our results of operations for the three months ended March 31, 2010 was not material. We do not expect this aspect of the legislation will have a material impact on our results of operations in the future.

Therapeutic Discovery Project Credit

The legislation established a 50 percent nonrefundable investment tax credit for qualified investments in qualifying therapeutic discovery projects. The provision allocates \$1 billion during the two-year period (2009-2010) for the program. The credit is available only to companies with 250 or fewer employees. The qualified investment for any tax year is the aggregate amount of the costs paid or incurred in that year for expenses necessary for and directly related to the conduct of the qualifying therapeutic discovery project. We are currently evaluating our projects to position ourselves to apply for these credits when the United States Treasury issues guidance on how taxpayers may apply for the credits, which is expected to occur by May 21, 2010.

CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGMENTS AND ESTIMATES

Please see a discussion of our critical accounting policies and significant judgments and estimates on pages 39 through 42 in "Management's discussion and analysis" of our Annual Report on Form 10-K for the year ended December 31, 2009.

Accounting Estimates and Judgments

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. We base our estimates on past experience and on other factors we deem reasonable given the circumstances. Past results help form the basis of our judgments about the carrying value of assets and liabilities that are not determined from other sources. Actual results could differ from these estimates. These estimates, judgments and assumptions are most critical with respect to our accounting for revenue recognition, provision for income taxes, stock-based compensation, research and development accounting and intangible assets.

RECENTLY ISSUED ACCOUNTING STANDARDS

In March 2010, the Financial Accounting Standards Board, or FASB, issued guidance providing for the recognition of revenue using the milestone method. Under this new guidance, an entity can recognize revenue associated with milestones if the milestones are substantive and there is substantive uncertainty about whether the milestone will be achieved. To meet the definition of a substantive milestone, the consideration earned by achieving the milestone (1) would have to be commensurate with either the level of effort required to achieve the milestone or the enhancement in the value of the item delivered, (2) would have to relate solely to past performance and (3) should be reasonable relative to all deliverables and payment terms in the arrangement. The new guidance is effective for our third quarter ended September 30, 2010. Early adoption is permitted. The adoption of this guidance is not expected to have a material impact on our consolidated financial position or results of operations.

In October 2009, the FASB issued guidance setting forth requirements that must be met for an entity to recognize revenue from the sale of a delivered item that is part of a multiple-element arrangement when other items have not yet been delivered. The overall arrangement fee will be allocated to each element based on their relative selling prices. If an entity does not have a selling price for an element, then management must estimate the selling price. This guidance is effective for us for all revenue arrangements entered into or materially modified after January 1, 2011. Early adoption is permitted. The future impact of adopting this standard will depend on the nature and extent of transactions covered by this standard.

RESULTS OF OPERATIONS

Three months ended March 31, 2010 compared to the three months ended March 31, 2009

Net revenues. Net revenues for the three months ended March 31, 2010 totaled approximately \$10.1 million, representing an increase of approximately \$0.7 million, or 8%, over the same period in 2009, of which \$0.6 million was attributable to Acetadote, with sales volume for Acetadote and Kristalose remaining consistent for the three months ended March 31, 2010 as compared to the same period in 2009. Also impacting our net revenues was an increase in our gross-to-net revenue adjustments for Acetadote and Kristalose primarily due to additional fee-for-service agreements in 2010.

During the second quarter of 2009, we expanded our hospital sales force in connection with the commercial launch of Caldolor. In addition to the expansion of our hospital sales force, we realigned our field sales force to enable them to also promote Caldolor in the surgery-center market. The sales forces have been working diligently in the continued launch of Caldolor while maintaining a consistent level of focus on our existing products, which is evidenced by consistent sales volume of Acetadote and Kristalose.

Cost of products sold. Cost of products sold as a percentage of net revenues increased slightly from 7.8% for the three months ended March 31, 2009 to 8.5% for the same period in 2010. The increase in cost of products sold as a percentage of net revenues was primarily due to (1) the weakening of the U.S. dollar and (2) an increase in our gross-to-net revenue adjustments discussed above.

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Selling and marketing. Selling and marketing expense for the three months ended March 31, 2010 totaled approximately \$5.6 million, representing an increase of approximately \$1.5 million, or 35%, over the same period in 2009. The increase was primarily due to the expansion of our hospital sales force in the second quarter of 2009, and the resulting increases in payroll and related taxes, travel, meals and promotional activities.

General and administrative. General and administrative expense for the three months ended March 31, 2010 totaled approximately \$1.9 million, representing an increase of approximately \$0.4 million, or 30%, over the same period in 2009. The increase is primarily due to additional expenses associated with being an SEC registrant, including legal and accounting-related costs and insurance. In addition, we incurred additional foreign currency expense associated with our products bought from overseas suppliers.

Interest expense. Interest expense for the three months ended March 31, 2010 totaled approximately \$0.3 million, representing an increase of approximately \$0.2 million as compared to the same period in 2009. The increase is directly attributable to the increase in our term debt balance of \$8.4 million as of March 31, 2010 as compared to March 31, 2009.

Income tax expense. Income tax expense for the three months ended March 31, 2010 totaled approximately \$0.2 million, representing a decrease of approximately \$0.6 million, or 75%, over the same period in 2009. As a percentage of income before income taxes, income tax expense decreased slightly from 40.8% for the three months ended March 31, 2009 to 40.3% for the three months ended March 31, 2010. The decrease, in dollars, was primarily due to lower earnings in the first quarter of 2010 as compared to the same period in 2009.

LIQUIDITY AND CAPITAL RESOURCES

Working Capital

Our primary sources of liquidity are cash flows provided by our operations, our borrowings and the cash proceeds from our initial public offering of common stock that was completed in August 2009. We believe that our internally generated cash flows, amounts available under our credit facilities and cash on hand will be adequate to service existing debt, finance internal growth and fund capital expenditures. As of March 31, 2010 and December 31, 2009, cash and cash equivalents was \$73.8 million and \$78.7 million, respectively, working capital (current assets minus current liabilities) was \$72.9 million and \$74.5 million, respectively, and our current ratio (current assets to current liabilities) was 5.7x and 5.0x, respectively. As of March 31 2010, we had an additional \$2.2 million available to us on our line of credit.

The following table summarizes our net changes in cash and cash equivalents for the three months ended March 31, 2010 and 2009:

| | Three Months Ended March 31, | |
|--|---------------------------------|-------------------|
| | 2010 | 2009 |
| | (in thousands) | |
| Net cash provided by (used in): | | |
| Operating activities | \$ 519 | \$ (1,735) |
| Investing activities | (64) | (32) |
| Financing activities | (5,404) | 10 |
| Net decrease in cash and cash equivalents ⁽¹⁾ | <u>\$ (4,949)</u> | <u>\$ (1,757)</u> |

(1) The sum of the individual amounts may not agree due to rounding.

The net decrease in cash and cash equivalents of \$4.9 million for the three months ended March 31, 2010 was primarily due to cash used in financing activities, which included (1) principal payments on our term debt of approximately \$4.6 million, (2) the repurchase of common stock of approximately \$1.8 million, (3) proceeds from the exercise of stock options of approximately \$0.8 million and (4) the excess tax benefit derived from the exercise of nonqualified options of approximately \$0.2 million.

OFF-BALANCE SHEET ARRANGEMENTS

During the three months ended March 31, 2010, the Company did not engage in any off-balance sheet arrangements.

Item 3: Quantitative and Qualitative Disclosure about Market Risk

Interest Rate Risk

We are exposed to market risk related to changes in interest rates on our revolving credit facility and our term note payable. We do not utilize derivative financial instruments or other market risk-sensitive instruments to manage exposure to interest rate changes. The main objective of our cash investment activities is to preserve principal while maximizing interest income through low-risk investments.

The interest rate related to borrowings under our revolving credit facility and term debt is a variable rate of LIBOR plus an applicable margin, as defined in the debt agreement (5.75% at March 31, 2010). As of March 31, 2010, we had outstanding borrowings of approximately \$15.3 million under our revolving credit facility and term debt combined. If interest rates increased by 1.0%, our annual interest expense on our borrowings would increase by approximately \$0.2 million.

Exchange Rate Risk

While we operate primarily in the U.S., we are exposed to foreign currency risk. Acetadote is manufactured by a supplier that denominates supply prices in Canadian dollars. One of our supply agreements for Caldolor is denominated in Australian dollars. Additionally, some of our research and development is performed abroad. As of March 31, 2010, our outstanding payables denominated in a foreign currency totaled \$1.1 million.

Currently, we do not utilize financial instruments to hedge exposure to foreign currency fluctuations. We believe our exposure to foreign currency fluctuation is minimal as our purchases in foreign currency have a maximum exposure of 90 days based on invoice terms, with much of the exposure being limited to 30 days based on the due date of the invoice. Foreign currency exchange gains and losses were not significant for the three months ended March 31, 2010. Neither a 10% increase nor decrease from current exchange rates would have a significant effect on our operating results or financial condition.

Item 4T: Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of March 31, 2010. Based on that evaluation, they have concluded that the Company's disclosure controls and procedures are effective to ensure that material information relating to the Company and the Company's consolidated subsidiaries is made known to officers within these entities in order to allow for timely decisions regarding required disclosure.

During the Company's first quarter of 2010, there have been no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) or 15d-15(f)).

PART II – OTHER FINANCIAL INFORMATION

Item 1a: Risk Factors

Information regarding risk factors appears on pages 20 through 32 in our Annual Report on Form 10-K for the year ended December 31, 2009 under the sections titled "Risk Factors." There have been no material changes from the risk factors previously discussed therein.

Item 2: Unregistered Sales of Equity Securities and Use of Proceeds**Use of Proceeds**

On August 10, 2009, our Registration Statement on Form S-1 (File No. 333-142535) for 5,000,000 shares of common stock was declared effective for the Company's initial public offering. As of March 31, 2010, we have used approximately \$4.2 million of the net proceeds to pay off the existing term debt with Bank of America, approximately \$5.5 million for the commercialization of Caldolor, approximately \$3.6 million for the expansion of our sales force and approximately \$1.4 million for ongoing clinical work, product development and other costs related to Caldolor. The remaining proceeds have been invested in money market accounts. There have been no material changes in the planned expected use of the net proceeds from the offering.

Purchases of Equity Securities

The following table summarizes the purchase of equity securities by the Company during the three months ended March 31, 2010:

| Period | Total Number of Shares (or Units) Purchased | Average Price Paid per Share (or Unit) |
|--------------------------|--|---|
| January 1 – January 31 | – | – |
| February 1 – February 28 | 161,337 | \$ 11.89 |
| March 1 – March 31 | – | – |
| Total | <u>161,337</u> | |

The purchase of 153,543 shares of common stock was made pursuant to a put right held by an executive to provide for the settlement of the remaining tax liability associated with the exercise of stock options in 2009. In addition, a shareholder tendered 7,794 existing shares held as consideration for the exercise price of options exercised. The purchase price of these transactions was the then-current fair market value of common stock on the date of the transaction.

Item 6: Exhibits

| No. | Description |
|---------|--|
| 4.6.1# | Form of Incentive Stock Option Agreement under 2007 Long-Term Incentive Compensation Plan of Cumberland Pharmaceuticals Inc. |
| 4.6.2# | Form of Nonstatutory Stock Option Agreement under 2007 Long-Term Incentive Compensation Plan of Cumberland Pharmaceuticals Inc. |
| 4.7# | Form of Nonstatutory Stock Option Agreement under 2007 Directors' Compensation Plan of Cumberland Pharmaceuticals Inc. |
| 10.6.3 | Fifth Amendment to Service Agreement, dated April 1, 2010, by and between Ventiv Commercial Services, LLC and Cumberland Pharmaceuticals Inc., incorporated herein by reference from Exhibit 10.1 of the Registrant's Current Report on Form 8-K (File No. 001-33637) as filed with the SEC on April 6, 2010 |
| 10.9.4† | Fourth Amendment to Kristalose Agreement, effective January 1, 2010, by and between Inalco S.p.A., Inalco Biochemicals, Inc., and Cumberland Pharmaceuticals Inc. |
| 10.11# | Employment Agreement effective as of January 1, 2010 by and between A.J. Kazimi and Cumberland Pharmaceuticals Inc., incorporated herein by reference to the corresponding exhibit to the Registrant's Current Report of Form 8-K (File No. 001-33637) as filed with the SEC on March 29, 2010. |

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| No. | Description |
|----------|--|
| 10.12# | Employment Agreement effective as of January 1, 2010 by and between Jean W. Marstiller and Cumberland Pharmaceuticals Inc., incorporated herein by reference to the corresponding exhibit to the Registrant's Current Report of Form 8-K (File No. 001-33637) as filed with the SEC on March 29, 2010. |
| 10.13# | Employment Agreement effective as of January 1, 2010 by and between Leo Pavliv and Cumberland Pharmaceuticals Inc., incorporated herein by reference to the corresponding exhibit to the Registrant's Current Report of Form 8-K (File No. 001-33637) as filed with the SEC on March 29, 2010. |
| 10.15# | Employment Agreement effective as of January 1, 2010 by and between David L. Lowrance and Cumberland Pharmaceuticals Inc., incorporated herein by reference to the corresponding exhibit to the Registrant's Current Report of Form 8-K (File No. 001-33637) as filed with the SEC on March 29, 2010. |
| 10.19# | 2007 Directors' Incentive Plan of Cumberland Pharmaceuticals Inc. |
| 10.21.2† | Second Amendment to Office Lease Agreement, dated March 2, 2010, by and between 2525 West End, LLC (successor in interest to Nashville Hines Development LLC) and Cumberland Pharmaceuticals Inc. |
| 10.26# | Employment Agreement effective as of January 1, 2010 by and between Martin E. Cearnal and Cumberland Pharmaceuticals Inc., incorporated herein by reference to the corresponding exhibit to the Registrant's Current Report of Form 8-K (File No. 001-33637) as filed with the SEC on March 29, 2010. |
| 31.1 | Certification of Chief Executive Officer Pursuant to Rule 13-14(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 Chief Financial Officer Pursuant to Rule 13-14(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 Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

Indicates a management contract or compensatory plan.

† Confidential treatment has been requested for portions of this exhibit. These portions have been omitted from the Quarterly Report and submitted separately to the Securities and Exchange Commission.

SIGNATURES

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

Cumberland Pharmaceuticals Inc.

Dated: May 17, 2010

By: /s/ A. J. Kazimi
A. J. Kazimi
Chief Executive Officer

Dated: May 17, 2010

By: /s/ David L. Lowrance
David L. Lowrance
Vice President and Chief Financial Officer

**CUMBERLAND PHARMACEUTICALS INC.
2007 LONG-TERM INCENTIVE COMPENSATION PLAN
INCENTIVE STOCK OPTION AGREEMENT**

1. Grant of Option. Cumberland Pharmaceuticals Inc. (the "Company"), a Tennessee corporation, hereby grants to the Participant an option (the "Option") to purchase from the Company up to the number of shares of common stock (the "Shares") described in the attached Notice of Stock Option Grant (the "Notice"). This grant is made subject to the terms of the Cumberland Pharmaceuticals Inc. 2007 Long-Term Incentive Compensation Plan (the "Plan") and the number of shares granted is subject to adjustment as described in the Plan. Unless otherwise defined in this Incentive Stock Option Agreement (the "Option Agreement"), capitalized terms used in this Option Agreement shall have the same meaning as those capitalized terms in the Plan.

2. Exercise Price. If the Option is exercised, the purchase price per Share shall be as shown in the attached Notice.

3. Method of Exercise. The Option granted under this Option Agreement shall be exercisable from time to time, in whole or in part, by written notice as described in Section 9 hereof, accompanied by payment of the purchase price for the Shares which the Participant elects to purchase by cash, check, or such other instrument as the Company may accept. The Company shall make prompt delivery of such Shares, and in no event shall delivery of such shares be made more than 30 days after cash, check or other instrument is accepted by the Company in payment for the Shares, except that if any law or regulation requires the Company to take any action with respect to the Shares specified in such notice before issuance thereof, then the date of delivery of such Shares shall be extended for the period necessary for the Company to take such action.

4. Vesting.

(a) The Option shall vest in accordance with the schedule set forth in the Notice. Employment for only a portion of the vesting period, even if a substantial portion, will not entitle the Participant to any proportionate vesting or avoid or mitigate a termination of rights and benefits upon or following a termination of employment.

(b) Upon the Participant's Employment Termination, the Option, to the extent unvested, shall lapse and be cancelled, and be of no further force and effect, as of midnight of such date, unless the Board resolves (under Section 4(b) of the Plan) to cancel or cause the forfeiture of the Option at an earlier time.

(c) Upon an Acquisition Event and/or a Change in Control Event, the Option will vest to the extent provided in the Plan.

5. Termination of Option; Restrictions on Exercise. Except as otherwise stated in this Agreement, this Option, to the extent not previously exercised, shall expire on the expiration date set forth in the attached Notice (the "Expiration Date"). The following additional provisions shall apply to the exercise of this Option:

(a) *Termination of Employment.* Except as otherwise provided in this Option Agreement or in the Plan, if Participant's employment with the Company and its Related Entities is terminated by the Participant or the Company, the right to exercise this Option (to the extent that it is vested in accordance with the applicable provisions of Section 4 hereof) shall end on the earlier of the following dates: (i) ninety (90) days after such termination or (ii) the expiration date of this Option shown in the Notice. Except as expressly set forth otherwise herein, this Option shall terminate in all other respects upon such termination of employment.

(b) *Death of Participant.* If the Participant's employment with the Company is terminated due to his/her death during the term of this Option, the Participant's legal representative, or the person so entitled under the Participant's last will and testament, or under applicable intestate laws, shall have the right to exercise this Option for the number of Shares vested under Section 4 hereof as of the time of Participant's death, and such right shall expire and this Option shall terminate on the Expiration Date.

6. Provisions of Plan. The terms and provisions of the Plan (including any written amendments made to the Plan from time to time) are hereby incorporated herein by reference. In the event of a conflict between the terms or provisions contained herein and the terms or provisions of the Plan, the applicable terms and provisions of the Plan will govern and prevail; however, in the event of a conflict regarding specific terms and provisions addressing the duration of this Option after termination of employment, the terms and provisions of this Option will govern.

7. Tax Treatment of Option. The Participant is responsible for any federal, state, local, or foreign tax, including income tax, social security tax, payroll tax, payment on account, or other tax-related withholding with respect to this Option (including the grant, vesting and exercise of the Option and the receipt of Shares and sale of Shares). The Company does not guarantee any particular tax treatment or results in connection with the grant, vesting or exercise of the Option.

8. Code Section 409A. This Option Agreement is intended to be exempt from the requirements of Internal Revenue Code Section 409A ("Section 409A") and regulations or other authority under Section 409A, and not intended to provide for any deferral of compensation that fails to satisfy the requirements of Section 409A. Notwithstanding any other provision of Option Agreement to the contrary, it is intended that any payment or benefit provided for in this Option Agreement that constitutes "nonqualified deferred compensation," as that term is defined in Code Section 409A, shall be provided and issued in a manner, and at such time and in such form, as complies with the applicable requirements of Section 409A. Any provision in this Option Agreement that would result in the imposition of excise taxes or any other taxes upon Participant under Section 409A shall be void and without effect. To the extent permitted under Section 409A, the parties shall reform the provision, provided such reformation shall not subject Participant to additional tax or interest and shall not require the Company to incur any additional compensation costs as a result of the reformation. In addition, any provision that is required to appear in this Option Agreement for purposes of Section 409A compliance and that is not expressly set forth shall be deemed to be set forth herein, and this Option Agreement shall be administered in all respects as if such provision were expressly set forth. References in this

Option Agreement to Section 409A include rules, regulations, and guidance of general application issued by the Department of the Treasury under Section 409A.

9. Notices. Any notice, request, instruction or other document given under this Option Agreement shall be in writing and shall be addressed and delivered in the case of the Company, to the Secretary of the Company at the principal office of the Company and, in the case of the Participant, at the Participant's address as set forth in the attached Notice or to such other address as the Participant may provide in a written notice to the Company, a copy of which shall be on file with the Secretary of the Company.

10. Governing Law. This Option Agreement shall be construed in accordance with and governed by the law of the State of Tennessee, without giving effect to the conflict of law provisions thereof.

11. Relation to Other Benefits. Unless otherwise provided, the benefits received by the Participant under this Option Agreement will not be taken into account or treated as normal salary or compensation in determining any benefits to which the Participant may be entitled under any profit sharing, retirement, bonus, long service, or other benefit or compensation plan maintained by the Company, including the amount of any life insurance coverage available to any beneficiary of the Participant under any life insurance plan covering employees of the Company, or as part of the calculation of any severance, resignation, termination, redundancy or end of service payments.

12. Miscellaneous. The grant of this Option does not create any contractual or other right to receive future grants of Options, or benefits in lieu of Options, even if the Participant has a history of receiving Options or other stock awards.

13. Headings. The headings of the Sections hereof are provided for convenience only and are not to serve as a basis for interpretation or construction, and shall not constitute a part of this Option Agreement.

14. Signature. This Option Agreement shall be deemed executed by the Company and the Participant upon execution by such parties of the attached Notice.

#

FOR FUTURE USE

NOTICE OF EXERCISE

Cumberland Pharmaceuticals Inc.:

The undersigned hereby elects to exercise the purchase rights granted in the attached Option Agreement # ____ and associated Notice of Stock Option Grant. In accordance with the terms thereof, the undersigned elects to purchase _____ shares of Common Stock of Cumberland Pharmaceuticals Inc. and tenders herewith payment of the purchase price for such shares in full.

Please issue said shares of Common Stock in the name of the undersigned.

Date: _____

PARTICIPANT

Signature: _____

Print Name: _____

Address: _____

City, State, Zip: _____

Social Security Number: _____

Phone Number: _____

\$ _____

Payment Attached

CUMBERLAND PHARMACEUTICALS INC.
2007 LONG-TERM INCENTIVE COMPENSATION PLAN
NON-STATUTORY STOCK OPTION AGREEMENT

1. Grant of Option. Cumberland Pharmaceuticals Inc. (the “Company”), a Tennessee corporation, hereby grants to the Participant an option (the “Option”) to purchase from the Company up to the number of shares of common stock (the “Shares”) described in the attached Notice of Stock Option Grant (the “Notice”). This grant is made subject to the terms of the Cumberland Pharmaceuticals Inc. 2007 Long-Term Incentive Compensation Plan (the “Plan”) and the number of shares granted is subject to adjustment as described in the Plan. Unless otherwise defined in this Non-Statutory Stock Option Agreement (the “Option Agreement”), capitalized terms used in this Option Agreement shall have the same meaning as those capitalized terms in the Plan. This Option is *not* intended to qualify as an incentive stock option within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended.

2. Exercise Price. If the Option is exercised, the purchase price per Share shall be as shown in the attached Notice.

3. Method of Exercise. The Option granted under this Option Agreement shall be exercisable from time to time, in whole or in part, by written notice as described in Section 9 hereof, accompanied by payment of the purchase price for the Shares which the Participant elects to purchase by cash, check, or such other instrument as the Company may accept. The Company shall make prompt delivery of such Shares, and in no event shall delivery of such shares be made more than 30 days after cash, check or other instrument is accepted by the Company in payment for the Shares, except that if any law or regulation requires the Company to take any action with respect to the Shares specified in such notice before issuance thereof, then the date of delivery of such Shares shall be extended for the period necessary for the Company to take such action.

4. Vesting.

(a) The Option shall vest in accordance with the schedule set forth in the attached Notice. Employment (or consulting) for only a portion of the vesting period, even if a substantial portion, will not entitle the Participant to any proportionate vesting or avoid or mitigate a termination of rights and benefits upon or following a termination of employment (or consulting engagement).

(b) Upon the Participant’s Employment Termination (or termination of the consulting engagement), the Option, to the extent unvested, shall lapse and be cancelled, and be of no further force and effect, as of midnight of such date, unless the Board resolves (under Section 4(b) of the Plan) to cancel or cause the forfeiture of the Option at an earlier time.

(c) Upon an Acquisition Event and/or a Change in Control Event, the Option will vest to the extent provided in the Plan.

5. Termination of Option; Restrictions on Exercise. Except as otherwise stated in this Agreement, this Option, to the extent not previously exercised, shall expire on the expiration date

set forth in the attached Notice (the “Expiration Date”). The following additional provisions shall apply to the exercise of this Option:

(a) *Termination of Employment (or Consulting Engagement)*. Except as otherwise provided in this Option Agreement or in the Plan, if Participant’s employment with the Company and its Related Entities is terminated by the Participant or the Company (or if the Participant’s consulting engagement is terminated), the right to exercise this Option (to the extent that it is vested in accordance with the applicable provisions of Section 4 hereof) shall end on the earlier of the following dates: (i) ninety (90) days after such termination or (ii) the expiration date of this Option shown in the attached Notice. Except as expressly set forth otherwise herein, this Option shall terminate in all other respects upon such termination of employment (or consulting engagement).

(b) *Death of Participant*. If the Participant’s employment (or consulting engagement) with the Company is terminated due to his/her death during the term of this Option, the Participant’s legal representative, or the person so entitled under the Participant’s last will and testament, or under applicable intestate laws, shall have the right to exercise this Option for the number of Shares vested under Section 4 hereof as of the time of Participant’s death, and such right shall expire and this Option shall terminate on the Expiration Date.

6. Provisions of Plan. The terms and provisions of the Plan (including any written amendments made to the Plan from time to time) are hereby incorporated herein by reference. In the event of a conflict between the terms or provisions contained herein and the terms or provisions of the Plan, the applicable terms and provisions of the Plan will govern and prevail; however, in the event of a conflict regarding specific terms and provisions addressing the duration of this Option after termination of employment (or consulting engagement), the terms and provisions of this Option will govern.

7. Tax Treatment of Option. The Participant is responsible for any federal, state, local, or foreign tax, including income tax, social security tax, payroll tax, payment on account, or other tax-related withholding with respect to this Option (including the grant, vesting and exercise of the Option and the receipt of Shares and sale of Shares). The Company does not guarantee any particular tax treatment or results in connection with the grant, vesting or exercise of the Option.

8. Code Section 409A. This Option Agreement is intended to be exempt from the requirements of Internal Revenue Code Section 409A (“Section 409A”) and regulations or other authority under Section 409A, and not intended to provide for any deferral of compensation that fails to satisfy the requirements of Section 409A. Notwithstanding any other provision of Option Agreement to the contrary, it is intended that any payment or benefit provided for in this Option Agreement that constitutes “nonqualified deferred compensation,” as that term is defined in Code Section 409A, shall be provided and issued in a manner, and at such time and in such form, as complies with the applicable requirements of Section 409A. Any provision in this Option Agreement that would result in the imposition of excise taxes or any other taxes upon Participant under Section 409A shall be void and without effect. To the extent permitted under Section 409A, the parties shall reform the provision, provided such reformation shall not subject Participant to additional tax or interest and shall not require the Company to incur any additional compensation costs as a result of the reformation. In addition, any provision that is required to

appear in this Option Agreement for purposes of Section 409A compliance and that is not expressly set forth shall be deemed to be set forth herein, and this Option Agreement shall be administered in all respects as if such provision were expressly set forth. References in this Option Agreement to Section 409A include rules, regulations, and guidance of general application issued by the Department of the Treasury under Section 409A.

9. Notices. Any notice, request, instruction or other document given under this Option Agreement shall be in writing and shall be addressed and delivered in the case of the Company, to the Secretary of the Company at the principal office of the Company and, in the case of the Participant, at the Participant's address as set forth in the attached Notice or to such other address as the Participant may provide in a written notice to the Company, a copy of which shall be on file with the Secretary of the Company.

10. Governing Law. This Option Agreement shall be construed in accordance with and governed by the law of the State of Tennessee, without giving effect to the conflict of law provisions thereof.

11. Relation to Other Benefits. Unless otherwise provided, the benefits received by the Participant under this Option Agreement will not be taken into account or treated as normal salary or compensation in determining any benefits to which the Participant may be entitled under any profit sharing, retirement, bonus, long service, or other benefit or compensation plan maintained by the Company, including the amount of any life insurance coverage available to any beneficiary of the Participant under any life insurance plan covering employees of the Company, or as part of the calculation of any severance, resignation, termination, redundancy or end of service payments.

12. Miscellaneous. The grant of this Option does not create any contractual or other right to receive future grants of Options, or benefits in lieu of Options, even if the Participant has a history of receiving Options or other stock awards.

13. Headings. The headings of the Sections hereof are provided for convenience only and are not to serve as a basis for interpretation or construction, and shall not constitute a part of this Option Agreement.

14. Signature. This Option Agreement shall be deemed executed by the Company and the Participant upon execution by such parties of the attached Notice.

#

FOR FUTURE USE

NOTICE OF EXERCISE

Cumberland Pharmaceuticals Inc.:

The undersigned hereby elects to exercise the purchase rights granted in the attached Option Agreement # ____ and associated Notice of Stock Option Grant (Non-Statutory Stock Option). In accordance with the terms thereof, the undersigned elects to purchase _____ shares of Common Stock of Cumberland Pharmaceuticals Inc. and tenders herewith payment of the purchase price for such shares in full.

Please issue said shares of Common Stock in the name of the undersigned.

Date: _____

PARTICIPANT

Signature: _____

Print Name: _____

Address: _____

City, State, Zip: _____

Social Security Number: _____

Phone Number: _____

\$ _____
Payment Attached

**CUMBERLAND PHARMACEUTICALS INC.
2007 DIRECTORS' INCENTIVE PLAN
NON-STATUTORY STOCK OPTION AGREEMENT**

1. Grant of Option. Cumberland Pharmaceuticals Inc. (the "Company"), a Tennessee corporation, hereby grants to the Participant an option (the "Option") to purchase from the Company up to the number of shares of common stock in the Company (the "Shares") described in the attached Notice of Stock Option Grant (the "Notice"). This grant is made subject to the terms of the Cumberland Pharmaceuticals Inc. 2007 Directors' Incentive Plan (the "Plan") and the number of shares granted is subject to adjustment as described in the Plan. Unless otherwise defined in this Non-Statutory Stock Option Agreement (the "Option Agreement"), capitalized terms used in this Option Agreement shall have the same meaning as those capitalized terms in the Plan. This Option is *not* intended to qualify as an incentive stock option within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended.

2. Exercise Price. If the Option is exercised, the purchase price per Share shall be as shown in the attached Notice.

3. Method of Exercise. The Option shall be exercisable from time to time, in whole or in part, by written notice as described in Section 9 hereof, accompanied by payment of the purchase price for the Shares which the Participant elects to purchase by cash, check, or such other instrument as the Company may accept under the terms of the Plan. The Company shall make prompt delivery of such Shares, and in no event shall delivery of such shares be made more than 30 days after cash, check or other instrument is accepted by the Company in payment for the Shares, except that if any law or regulation requires the Company to take any action with respect to the Shares specified in such notice before issuance thereof, then the date of delivery of such Shares shall be extended for the period necessary for the Company to take such action.

4. Vesting.

(a) The Option shall vest in accordance with the schedule set forth in the Notice. Service as a member of the Company's Board of Directors (a "Director") for only a portion of the vesting period, even if a substantial portion, will not entitle the Participant to any proportionate vesting or avoid or mitigate a termination of rights and benefits upon or following a termination of service as Director.

(b) Upon termination of Participant's service as Director, the Option, to the extent unvested, shall lapse and be cancelled, and be of no further force and effect, as of midnight of such date.

(c) Upon a Change of Control Event, the Option will vest to the extent provided in Section 9.2 of the Plan.

5. Termination of Option; Restrictions on Exercise. Except as otherwise stated in this Agreement, this Option, to the extent not previously exercised, shall expire on the expiration

date set forth in the attached Notice (the “Expiration Date”). The following additional provisions shall apply to the exercise of this Option:

(a) *Termination of Service as Director.* If Participant’s service as Director is terminated for any reason, the right to exercise this Option (to the extent that it is vested in accordance with the applicable provisions of Section 4 hereof) shall end on the earlier of the following dates: (i) two (2) years after the date of such termination or (ii) the Expiration Date. Except as expressly set forth otherwise herein, this Option shall terminate in all other respects upon such termination of Participant’s service as Director.

(b) *Death of Participant.* If the Participant’s service as Director is terminated due to his/her death during the term of this Option, the Participant’s legal representative, or the person so entitled under the Participant’s last will and testament, or under applicable intestate laws, shall have the right to exercise this Option for the number of Shares vested under Section 4 hereof as of the time of Participant’s death, and such right shall expire and this Option shall terminate on the Expiration Date.

6. Provisions of Plan. The terms and provisions of the Plan (including any written amendments made to the Plan from time to time) are hereby incorporated herein by reference. In the event of a conflict between the terms or provisions contained herein and the terms or provisions of the Plan, the applicable terms and provisions of the Plan will govern and prevail; however, in the event of a conflict regarding specific terms and provisions addressing the duration of this Option after termination of Participant’s service as Director, the terms and provisions of this Option will govern. Participant is advised to consult his or her tax adviser concerning tax issues regarding the Option.

7. Tax Treatment of Option. The Participant is responsible for any federal, state, local, or foreign tax, including income tax, social security tax, payroll tax, payment on account, or other tax-related withholding with respect to this Option (including the grant, vesting and exercise of the Option and the receipt of Shares and sale of Shares). The Company does not guarantee any particular tax treatment or results in connection with the grant, vesting or exercise of the Option.

8. Code Section 409A. This Option Agreement is intended to be exempt from the requirements of Internal Revenue Code Section 409A (“Section 409A”) and regulations or other authority under Section 409A, and not intended to provide for any deferral of compensation that fails to satisfy the requirements of Section 409A. Notwithstanding any other provision of Option Agreement to the contrary, it is intended that any payment or benefit provided for in this Option Agreement that constitutes “nonqualified deferred compensation,” as that term is defined in Code Section 409A, shall be provided and issued in a manner, and at such time and in such form, as complies with the applicable requirements of Section 409A. Any provision in this Option Agreement that would result in the imposition of excise taxes or any other taxes upon Participant under Section 409A shall be void and without effect. To the extent permitted under Section 409A, the parties shall reform the provision, provided such reformation shall not subject Participant to additional tax or interest and shall not require the Company to incur any additional compensation costs as a result of the reformation. In addition, any provision that is required to appear in this Option Agreement for purposes of Section 409A compliance and that is not

expressly set forth shall be deemed to be set forth herein, and this Option Agreement shall be administered in all respects as if such provision were expressly set forth. References in this Option Agreement to Section 409A include rules, regulations, and guidance of general application issued by the Department of the Treasury under Section 409A.

9. Notices. Any notice, request, instruction or other document given under this Option Agreement shall be in writing and shall be addressed and delivered in the case of the Company, to the Secretary of the Company at the principal office of the Company and, in the case of the Participant, at the Participant's address as set forth in the attached Notice or to such other address as the Participant may provide in a written notice to the Company, a copy of which shall be on file with the Secretary of the Company.

10. Governing Law. This Option Agreement shall be construed in accordance with and governed by the law of the State of Tennessee, without giving effect to the conflict of law provisions thereof.

11. Miscellaneous. The grant of this Option does not create any contractual or other right to receive future grants of Options, or benefits in lieu of Options, even if the Participant has a history of receiving Options or other stock awards. The granting of this Option and the vesting schedule set forth in the Notice do not constitute a promise, either express or implied, of continued engagement as a Director and shall not interfere with the Company's right or the Participant's right to terminate Participant's directorship at any time, with or without cause.

12. Headings. The headings of the Sections hereof are provided for convenience only and are not to serve as a basis for interpretation or construction, and shall not constitute a part of this Option Agreement.

13. Signature. This Option Agreement shall be deemed executed by the Company and the Participant upon execution by such parties of the attached Notice.

FOR FUTURE USE

NOTICE OF EXERCISE

Cumberland Pharmaceuticals Inc.:

The undersigned hereby elects to exercise the purchase rights granted in the attached Option Agreement # ____ and associated Notice of Stock Option Grant. In accordance with the terms thereof, the undersigned elects to purchase _____ shares of common stock of Cumberland Pharmaceuticals Inc. and tenders herewith payment of the purchase price for such shares in full.

Please issue said shares of common stock in the name of the undersigned.

Date: _____

PARTICIPANT:

Signature: _____

Print Name: _____

Social Security No. _____

Phone Number: _____

Address: _____

City, State, Zip: _____

Delivery Information:

\$ _____
Payment Attached

*Certain portions of this exhibit have been omitted pursuant to a request for confidential treatment which has been filed separately with the SEC.

**FOURTH AMENDMENT TO
KRISTALOSE AGREEMENT**

This Fourth Amendment to Kristalose Agreement (the "Fourth Amendment") is effective this 1st day of January, 2010 by and between Inalco S.P.A. ("Inalco Italy"), Inalco Biochemicals, Inc. ("Inalco U.S.") and Cumberland Pharmaceuticals Inc. ("Cumberland"). Inalco Italy and Inalco U.S. are hereinafter collectively referred to as "Inalco."

WHEREAS, Inalco and Cumberland entered into a certain Kristalose Agreement in April 2006 (the "Original Agreement") and subsequently entered into a certain Amendment to the Kristalose Agreement on April 3, 2008 ("First Amendment"), a certain Second Amendment to the Kristalose Agreement on July 1, 2008 ("Second Amendment"), and a certain Third Amendment to the Kristalose Agreement on April 6, 2009 ("Third Amendment") (The Original Agreement, First Amendment, Second Amendment, and Third Amendment as amended hereby, are collectively referred to herein as the "Kristalose Agreement");

WHEREAS, Inalco and Cumberland desire to further amend the Kristalose Agreement in certain respects as set forth herein.

NOW, THEREFORE, for and in consideration of the mutual covenants and agreements hereinafter set forth, and for other good and valuable consideration, the parties hereto agree as follows:

1. **Amendment of Section 4.3.** Effective the date of this Amendment, Section 4.3 (Payment for Product) of the Kristalose Agreement is hereby further amended to reflect a one-time price increase by deleting "[***]" and substituting in lieu thereof "[***]" and by deleting "[***]" and substituting in lieu thereof "[***]".

2. Capitalized terms not defined in this Fourth Amendment shall have the meaning set forth in the Kristalose Agreement.

3. It is mutually agreed that all covenants, conditions and agreements set forth in the Kristalose Agreement (as amended hereby) shall remain binding upon the parties and inure to the benefit of the parties hereto and their respective successors and assigns.

IN WITNESS WHEREOF, the parties hereto have caused this Fourth Amendment to be executed by their duly authorized representatives effective as of the day and year first written above.

INALCO S.P.A

By: /s/ Giovanni Cipolletti

Name: Giovanni Cipolletti

Its: Legal Representative

INALCO BIOCHEMICALS, INC.

By: /s/ E. Lowe

Name: E. Lowe

Its:

CUMBERLAND PHARMACEUTICALS INC.

By: /s/ A.J. Kazimi

Name: A.J. Kazimi

Its: Chief Executive Officer



2007 DIRECTORS' INCENTIVE PLAN

CONFIDENTIAL

**CUMBERLAND PHARMACEUTICALS INC.
2007 DIRECTORS' INCENTIVE PLAN**

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CUMBERLAND PHARMACEUTICALS INC.
2007 DIRECTORS' INCENTIVE PLAN

1. Purpose of the Plan

The purpose of the Cumberland Pharmaceuticals Inc. 2007 Directors' Incentive Plan is to promote the interests of the Company and its shareholders by strengthening the Company's ability to attract, motivate and retain Directors of experience and ability, and to encourage the highest level of performance by providing Directors with a proprietary interest in the Company's financial success and growth. The Plan supersedes and replaces all provisions pertaining to grants of stock options to Directors contained in the Cumberland Pharmaceuticals Inc. 1999 Stock Option Plan (the "Original Incentive Plan") but does not impair the vesting or exercise of any option granted under the Original Incentive Plan prior to the date that this Plan became effective.

2. Definitions

2.1 "Affiliate" shall have the meaning assigned to the term pursuant to Rule 12b-2 as promulgated under the Exchange Act.

2.2 "Award" means an award under the Plan of Options, Restricted Stock , or a Stock Grant.

2.3 "Board" means the Board of Directors of the Company.

2.4 "Committee" means the Compensation Committee of the Board or a subcommittee thereof. The Committee shall consist of not fewer than two members of the Board, each of whom shall (a) qualify as a "non-employee director" under Rule 16b-3 promulgated under the Securities Exchange Act of 1934, or any successor rule, and (b) qualify as an "outside director" under Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations promulgated thereunder (collectively, "Section 162(m)").

2.5 "Company" means Cumberland Pharmaceuticals Inc.

2.6 "Director" means a member of the Board who is not employed by the Company or any of its Affiliates or a joint venture of the company or one of its Affiliates.

2.7 "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

2.8 "Fair Market Value" means: (i) if the Stock or other security is listed on an established stock exchange or any automated quotation system that provides sale quotations, the closing sale price for a share thereof on such exchange or quotation system on the applicable date, and if shares are not traded on such day, on the next preceding trading date, (ii) if the Stock or other security is not listed on any exchange or quotation system, but bid and asked prices are quoted and published, the mean between the quoted bid and asked prices on the applicable date,

and if bid and asked prices are not available on such day, on the next preceding day on which such prices were available, and (iii) if the Stock or other security is not regularly quoted, the fair market value of a share thereof on the applicable date as established by the Committee in good faith. For purposes of Awards effective as of the effective date of the Company's initial public offering, Fair Market Value of the Stock shall be the price at which such stock is offered to the public in the Company's initial public offering.

2.9 "Option" means a stock option that does not satisfy the requirements of Section 422 of the Code to be an incentive stock option.

2.10 "Participant" means each Director (as defined in Section 2.6).

2.11 "Plan" means the Cumberland Pharmaceuticals Inc. 2007 Directors' Incentive Plan as set forth herein and as amended, restated, supplemented or otherwise modified from time to time.

2.12 "Restriction Period" means the period of time, established by the Committee in connection with an award of Restricted Stock, during which the shares of Restricted Stock are subject to a Risk of Forfeiture described in the applicable award agreement.

2.13 "Risk of Forfeiture" means a limitation on the right of the Participant to retain Restricted Stock, including a right in the Company to reacquire shares of Restricted Stock at less than their then Fair Market Value, arising because of the occurrence or non-occurrence of specified events or conditions.

2.14 "Restricted Stock" shall mean Stock of the Company awarded to a Director under this Plan from time to time in the sole discretion of the Committee subject to various restrictions, vesting schedules and such other conditions on ownership as the Committee shall determine.

2.15 "Stock" shall mean common stock of the Company.

2.16 "Stock Grant" shall mean an award of Stock of the Company granted in full and unrestricted ownership from time to time in the sole discretion of the Committee.

3. Shares of Stock Subject to the Plan

3.1 The Company may issue up to 125,000 shares of Stock, subject to the adjustment provisions of Section 8, in Awards granted hereunder. Such shares may be either authorized but unissued shares or shares issued and thereafter acquired by the Company.

3.2 To the extent any shares of Stock: (i) subject to an Option are not issued because the Option is forfeited or cancelled or (ii) subject to a Restricted Stock Grant are redeemed, forfeited, cancelled, repurchased or otherwise retained by the Company, such shares shall again be available for grant pursuant to the Plan. If the exercise price of any Option granted under this Plan is satisfied by tendering shares of Stock to the Company (by either actual delivery or by attestation), only the number of shares of Stock issued net of the shares of Stock tendered shall

be deemed delivered for purposes of determining the maximum number of shares of Stock available for delivery under the Plan.

4. Administration of the Plan

4.1 The Plan shall be administered by the Committee, which shall have the power to interpret the Plan and, subject to its provisions, to prescribe, amend and rescind Plan rules and to make all other determinations necessary for the Plan's administration.

4.2 All action taken by the Committee in the administration and interpretation of the Plan shall be final and binding upon all parties. No member of the Committee will be liable for any action or determination made in good faith by the Committee with respect to the Plan or any Option.

4.3 The Committee may grant Options or make Restricted Stock Grants or Stock Grants in its sole discretion. No member of the Committee may vote on an Award to himself or herself.

5. Terms and Conditions of Options

5.1 Unless exercisability is accelerated as provided in Section 9.2 hereof, each Option shall become exercisable on the date it vests.

5.2 Unless terminated earlier as provided in Section 5.5, the Options shall expire in up to ten years following the date of grant.

5.3 The exercise price of each Option granted to Directors shall be equal to the Fair Market Value, as defined herein, of a share of Stock on the date of grant.

5.4 The Committee shall determine the vesting period for Options granted under this Plan and shall specify such vesting period in writing in making an award of an Option under this Plan. However, should the Committee award Options under this Plan without specifying a vesting period, then the vesting period shall be five years, with 20% of the Options to vest on each anniversary of the date of grant until all Options granted hereunder are vested.

5.5 If a Director ceases to serve on the Board for any reason, the Options granted hereunder must be exercised, to the extent otherwise exercisable at the time of termination of his or her Board service, within two years from the date of termination of Board service. Any Options awarded to a Director and not yet vested at the time of termination of his or her Board service shall, be forfeited, automatically cancelled and of no further force and effect. Such forfeiture and automatic cancellation shall take effect at midnight on the date that the Director's Board service is terminated.

5.6 An Option may be exercised by giving written notice, specifying the number of shares of Stock to be purchased. The procedure for exercise of each Option awarded under this Plan will be set forth in the granting document for such Option. The Committee may, from time to time, amend the exercise procedures, in which case Participants will be notified of such

revised procedures. The exercise notice shall be accompanied by tender of the full purchase price for such shares, which may be paid or satisfied by (a) cash; (b) check; (c) delivery of shares of Stock, which shares shall be valued for this purpose at the Fair Market Value on the business day immediately preceding the date such Option is exercised and, unless otherwise determined by the Committee, shall have been held by the optionee for at least six months; or (d) in such other manner as may be authorized from time to time by the Committee. All such payments shall be made or denominated in United States dollars. In the case of delivery of an uncertified check, no shares shall be issued until the check has been paid in full. Prior to the issuance of shares of Stock upon the exercise of an Option, a Participant shall have no rights as a shareholder with respect to such Option.

5.7 Except for adjustments pursuant to Section 8 or actions permitted to be taken by the Board under Section 9 in the event of a Change of Control, unless approved by the shareholders of the Company, (a) the exercise price for any outstanding Option granted under this Plan may not be decreased after the date of grant and (b) an outstanding Option that has been granted under this Plan may not, as of any date that such Option has a per share exercise price that is less than the then current Fair Market Value of a share of Stock, be surrendered to the Company as consideration for the grant of a new Option with a lower exercise price or any payment of cash or Stock. No Option or other Award made under this Plan may ever under any circumstances be backdated.

5.8 Upon approval of the Committee, the Company may repurchase all or a portion of a previously granted Option from a Participant by mutual agreement before such option has been exercised by payment to the Participant of cash or Stock or a combination thereof with a value equal to the amount per share by which: (a) the Fair Market Value of the Stock subject to the Option on the business day immediately preceding the date of purchase exceeds (b) the exercise price.

5.9 Any person who receives a grant of Options under this Plan may be required, at the time the Options are awarded, to sign a consent allowing the Board, in its discretion, to cancel the Options if the Fair Market Value of the Stock decreases such that the exercise price of the Options is significantly above the Fair Market Value of the Stock.

6. Terms and Conditions of Restricted Stock Grants

The Committee may award Restricted Stock to a Director. All shares of Restricted Stock granted shall be subject to a Risk of Forfeiture as determined by the Committee, and shall additionally be subject to the following terms and conditions and such other terms and conditions as the Committee may prescribe.

6.1 Requirement of Board Service. A grantee of Restricted Stock must remain on the Board during the Restriction Period in order to retain the shares of Restricted Stock. If the Director leaves the Board prior to the end of the Restriction Period, the Restricted Stock award shall terminate and the shares of Restricted Stock shall be returned immediately to the Company, effective at midnight on the date the Director's Board service ends.

6.2 Restrictions on Transfer and Legend on Stock Certificates. During the Restriction Period, the Director may not sell, assign, transfer, pledge, or otherwise dispose of the shares of Restricted Stock except as expressly permitted in this Plan. Each certificate for shares of Restricted Stock issued hereunder shall contain a legend giving appropriate notice of the restrictions in the grant.

6.3 Escrow Agreement. The Committee may require the grantee to enter into an escrow agreement providing that the certificates representing the Restricted Stock award will remain in the physical custody of an escrow holder until all restrictions are removed or expire.

6.4 Lapse of Restrictions. In the document granting Restricted Stock, the Committee will specify the Restriction Period. If no Restriction Period is specified in a document granting Restricted Stock, then twenty percent (20%) of the Restricted Stock awarded under that granting document will become free of restriction on each anniversary date of the grant for five (5) years. All restrictions imposed on the Restricted Stock shall lapse upon the expiration of the Restriction Period if the conditions of the grant have been met. The Director shall then be entitled to have the legend removed from the certificates.

6.5 Dividends and Voting. Dividends declared on the Stock during the Restriction Period will be accumulated by the Company and paid to the Director if he becomes owner of the such stock without restriction. If the Restricted Stock reverts to the Company, then the Company will become the owner of all dividends accumulated in accordance with the preceding sentence. The Director will be entitled to vote all shares of Restricted Stock during the Restriction Period.

7. Terms and Conditions of Stock Grant

The Committee may make a Stock Grant to a Director under this Plan on such terms and conditions as it sees fit, subject to the provisions of all applicable laws and regulations.

8. Adjustment Provisions

In the event of any recapitalization, reclassification, stock dividend, stock split, combination of shares or other change in the Stock, the Committee shall equitably adjust all limitations on numbers of shares of Stock provided in this Plan, and the number of shares subject to outstanding Awards, with such adjustments made in proportion to the change in outstanding shares of Stock. In addition, in the event of any such change in the Stock, the Committee shall make any other adjustment that it determines to be equitable, including without limitation adjustments to the exercise price of any Option in order to provide Participants with the same relative rights before and after such adjustment.

9. Change of Control

9.1 "Change of Control Event" shall mean:

(a) any merger or consolidation that results in the voting securities of the Company outstanding immediately prior thereto representing (either by remaining outstanding or

by being converted into voting securities of the surviving or acquiring entity) less than 50% of the combined voting power of the voting securities of the Company or such surviving or acquiring entity outstanding immediately after such merger or consolidation; or

(b) the acquisition by an individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a “Person”) of beneficial ownership of any capital stock of the Company if, after such acquisition, such Person beneficially owns (within the meaning of Rule 13d-3 promulgated under the Exchange Act) 51% or more of either (A) the then-outstanding shares of Stock of the Company (the “Outstanding Company Stock”), or (B) the combined voting power of the then-outstanding voting securities of the Company entitled to vote generally in the election of Directors (the “Outstanding Company Voting Securities”). However, for purposes of this subsection (b), the following acquisitions shall not give rise to a Change of Control event: (A) any acquisition directly from the Company, (B) any acquisition by the Company, (C) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or an Affiliate, or (D) any acquisition by any Person pursuant to a transaction that results in all or substantially all of the individuals and entities who were the beneficial owners of 50 percent or more of the Outstanding Company Stock and Outstanding Company Voting Securities immediately prior to such transaction beneficially owning, directly or indirectly, more than 50% of the then-outstanding shares of Stock and the combined voting power of the then-outstanding voting securities entitled to vote generally in the election of directors, respectively, of the resulting or acquiring Person in such transaction (which shall include, without limitation, a Person that as a result of such transaction owns the Company or substantially all of the Company’s assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such transaction, of the Outstanding Company Stock and Outstanding Company Voting Securities, respectively;

(c) any sale of all or substantially all of the assets of the Company; or

(d) the complete liquidation of the Company.

9.2 Effect on Options. Upon the occurrence of a Change in Control Event, each outstanding Option shall vest in full and shall become immediately exercisable. Any agreement with respect to a Change in Control Event must provide that all outstanding Options shall be assumed, or equivalent options shall be substituted, by the acquiring or succeeding corporation (or an Affiliate thereof), if applicable. For purposes of this section, an Option shall be considered to be assumed if, following consummation of the Change in Control Event, the Option confers the right to purchase, for each share of Stock subject to the Option immediately prior to the consummation of the Change in Control Event, the consideration (whether cash, securities or other property) received as a result of the Change in Control Event by holders of Stock for each share of Stock held immediately prior to the consummation of the Change in Control Event (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding shares of Stock). However, if the consideration received as a result of the Change in Control Event is not solely Stock of the acquiring or succeeding entity (or an Affiliate thereof), the Company may, with the consent of the acquiring or succeeding entity, provide for the consideration to be received upon the exercise of Options to consist solely of Stock of the acquiring or succeeding entity (or an Affiliate thereof) equivalent in Fair Market

Value to the per share consideration received by holders of outstanding shares of Stock as a result of the Change in Control Event. Notwithstanding the foregoing, if the acquiring or succeeding entity (or an Affiliate thereof), does not agree to assume such Options, or substitute equivalent options for such Options, then the Board shall, upon written notice to the Option holders, provide that all then unexercised Options will become exercisable in full as of a specified time prior to the Change in Control Event and will terminate immediately prior to the consummation of such Change in Control Event, except to the extent exercised by the Option holders before the consummation of such Change in Control Event. However, in the event of an Change in Control Event under the terms of which holders of Stock will receive upon consummation thereof a cash payment for each share of Stock surrendered pursuant to such Change in Control Event (the "Acquisition Price"), then the Board may instead provide that all outstanding Options shall terminate upon consummation of such Change in Control Event and that each Option holder shall receive, in exchange therefor, a cash payment equal to the amount (if any) by which (A) the Acquisition Price multiplied by the number of shares of Stock subject to such outstanding Options (whether or not then exercisable), exceeds (B) the aggregate exercise price of such Options.

9.3 Effect on Restricted Stock. Upon the occurrence of a Change in Control Event, all restrictions and conditions on all Restricted Stock awards then outstanding shall automatically be deemed terminated or satisfied and all such Restricted Stock shall be fully vested.

10. General Provisions

10.1 Nothing in the Plan or in any instrument executed pursuant to the Plan will confer upon any Participant any right to continue as a Director.

10.2 No shares of Stock will be issued or transferred pursuant to an Option unless and until all then-applicable requirements imposed by federal and state securities and other laws, rules and regulations and by any regulatory agencies having jurisdiction, and by any stock exchanges upon which the Stock may be listed, have been fully met. As a condition precedent to the issuance of shares pursuant to the exercise of an Option, the Company may require the Participant to take any reasonable action to meet such requirements.

10.3 No Participant and no Person claiming under or through such Participant will have any right, title or interest in or to any shares of Stock allocated or reserved under the Plan or subject to any Option except as to such shares of Stock, if any, that have been issued or transferred to such Participant.

10.4 No Options or Restricted Stock awards granted hereunder may be transferred, pledged, assigned or otherwise encumbered by Director except:

- (a) by will;
- (b) by the laws of descent and distribution; or

(c) if permitted by the Committee and so provided in the stock option agreement or an amendment thereto, (i) to Immediate Family Members (as defined below), (ii) to a partnership in which the Participant and/or the Participant's Immediate Family Members, or entities in which the Participant and/or the Participant's Immediate Family Members are the owners, members or beneficiaries, as appropriate, are the sole partners, (iii) to a limited liability company in which the Participant and/or the Participant's Immediate Family Members, or entities in which the Participant and/or the Participant's Immediate Family Members are the sole owners, members or beneficiaries, as appropriate, are the sole members, or (iv) to a trust for the benefit solely of the Participant and/or the Participant's Immediate Family Members. "Immediate Family Members" means the spouses and natural or adopted children or grandchildren of the Participants, the spouses of such children and grandchildren, and the siblings and parents of the Participants.

Any attempted assignment, transfer, pledge, hypothecation or other disposition of an Option or Restricted Stock grant or levy of attachment, or similar process upon an Option or Restricted Stock award not specifically permitted herein, shall be null and void and without effect.

10.5 Each Award made under this Plan will be set forth in a written agreement that includes terms and conditions consistent with the Plan.

10.6 Anything in the Plan to the contrary notwithstanding: (a) the Company may, if it shall determine it necessary or desirable for any reason, at the time of grant of any Award or the issuance of any shares of Stock pursuant to any Option, require the recipient of the Award, as a condition to the receipt thereof or to the receipt of shares of Stock issued pursuant thereto, to deliver to the Company a written representation of present intention to acquire the Award or the shares of Stock issued pursuant thereto for his or her own account for investment and not for distribution; and (b) if at any time the Company further determines, in its sole discretion, that the listing, registration or qualification (or any updating of any such document) of any Award or the shares of Stock issuable pursuant thereto is necessary on any securities exchange or under any federal or state securities or blue sky law, or that the consent or approval of any governmental regulatory body is necessary or desirable as a condition of, or in connection with the grant of any Award, the issuance of shares of Stock pursuant thereto, or the removal of any restrictions imposed on such shares, such Award shall not be granted or such shares of Stock shall not be issued or such restrictions shall not be removed, as the case may be, in whole or in part, unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Company.

10.7 Any definition set forth in this Plan of the singular form of a term shall also apply to the plural form of that term, and any definition of the plural form of a term shall also apply to the singular form of the term. Any reference in this Plan to one gender shall also include the other gender.

11. Amendments, Discontinuance or Termination of the Plan

11.1 The Board may amend or discontinue the Plan at any time; provided, however, that no such amendment may:

(a) without the approval of the shareholders, (i) increase, subject to adjustments permitted herein, the maximum number of shares of Stock that may be issued through the Plan, (ii) materially increase the benefits accruing to Participants under the Plan, (iii) materially expand the classes of persons eligible to participate in the Plan, or (iv) amend Section 5.7 to permit repricing of Options; or

(b) materially impair, without the consent of the recipient, an Option previously granted or a Restricted Stock grant previously made, except that the Company retains all rights under Section 8 hereof.

11.2 The Plan shall automatically terminate on the earlier of the following dates: (1) ten years from the date that the Plan becomes effective, or (2) at such time as no shares of Stock remain available for issuance through the Plan. No termination of the Plan will affect the terms of any outstanding Options or shares of Restricted Stock.

12. Governing Law

The provisions of this Plan and all awards made under this Plan shall be governed by and interpreted in accordance with the law of the State of Tennessee, without regard to applicable conflicts of law principles.

13. Additional Requirements

Anything in the Plan to the contrary notwithstanding: (a) the Company may, if it shall determine it necessary or desirable for any reason, at the time of grant of any Incentive or the issuance of any shares of Stock pursuant to any Option, require the recipient of the Incentive, as a condition to the receipt thereof or to the receipt of shares of Stock issued pursuant thereto, to deliver to the Company a written representation of present intention to acquire the Incentive or the shares of Stock issued pursuant thereto for his or her own account for investment and not for distribution; and (b) if at any time the Company further determines, in its sole discretion, that the listing, registration or qualification (or any updating of any such document) of any Incentive or the shares of Stock issuable pursuant thereto is necessary on any securities exchange or under any federal or state securities or blue sky law, or that the consent or approval of any governmental regulatory body is necessary or desirable as a condition of, or in connection with the grant of any Incentive, the issuance of shares of Stock pursuant thereto, or the removal of any restrictions imposed on such shares, such Incentive shall not be granted or such shares of Stock shall not be issued or such restrictions shall not be removed, as the case may be, in whole or in part, unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Company.

14. “Lockup” Agreement

The Committee may in its discretion require that upon request of the Company or the underwriters managing any underwritten offering of the Company’s securities, the Participant shall agree in writing that for a period of time (not to exceed 180 days) from the effective date of any registration of securities of the Company, the Participant will not sell, make any short sale of, loan, grant any option for the purchase of, or otherwise dispose of any shares of Stock issued or issuable pursuant to the exercise of such Incentive, without the prior written consent of the Company or such underwriters, as the case may be.

15. Limitation of Liability

Each member of the Committee shall be entitled to, in good faith, rely or act upon any report or other information furnished to him or her by any officer or other employee of the Company or any Affiliate, the Company’s independent certified public accountants, or other professional retained by the Company to assist in the administration of the Plan. No member of the Committee, nor any officer, director or employee of the Company acting on behalf of the Committee, shall be personally liable for any action, determination, or interpretation taken or made in good faith with respect to the Plan, and all members of the Committee and any officer, director or employee of the Company acting on behalf of the Committee shall, to the extent permitted by law, be fully indemnified and protected by the Company with respect to any such action, determination, or interpretation.

16. Unfunded Status of Incentives

The Plan is intended to constitute an “unfunded” plan for incentive compensation. With respect to any payments not yet made to a Participant pursuant to an Incentive, nothing contained in the Plan or any Incentive shall give any such Participant any rights that are greater than those of a general creditor of the Company; provided, however, that the Committee may authorize the creation of trusts or make other arrangements to meet the Company’s obligations under the Plan to deliver cash, shares of Stock, other Incentives, or other property pursuant to any Incentive, which trusts or other arrangements shall be consistent with the “unfunded” status of the Plan unless the Committee otherwise determines with the consent of each affected Participant.

17. Nonexclusivity of the Plan

Neither the adoption of the Plan by the Board nor its submission to the stockholders of the Company for approval shall be construed as creating any limitations on the power of the Board to adopt such other incentive arrangements as it may deem desirable, including, without limitation, arrangements granting incentives otherwise than under the Plan, and such arrangements may be either applicable generally or only in specific cases.

18. Successors and Assigns

The Plan shall be binding on all successors and assigns of the Company and a Participant, including, without limitation, the estate of such Participant and the executor, administrator or

trustee of such estate, and any receiver or trustee in bankruptcy or representative of the Participant's creditors.

19. No Fractional Shares

No fractional shares of Stock shall be issued or delivered pursuant to the Plan or any Incentive, including on account of any action under Section 6(d) of the Plan. In lieu of such fractional shares, the Committee shall determine, in its discretion, whether cash, other Incentives, scrip certificates (which shall be in a form and have such terms and conditions as the Committee in its discretion shall prescribe) or other property shall be issued or paid in lieu of such fractional shares or whether such fractional shares or any rights thereto shall be forfeited or otherwise eliminated.

20. Severability

If any provision of the Plan is or becomes or is deemed invalid, illegal or unenforceable in any jurisdiction, or would disqualify the Plan or any Incentive under any law deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to applicable laws or if it cannot be construed or deemed amended without, in the determination of the Committee, materially altering the intent of the Plan, it shall be stricken and the remainder of the Plan shall remain in full force and effect.

21. Effective Date of Plan

The Plan shall become effective upon adoption by the Board, subject to approval by the holders of a majority of the shares of Stock and the Company's Series A Preferred Stock.

IN WITNESS WHEREOF, the undersigned Corporate Secretary of Cumberland Pharmaceuticals Inc. hereby certifies that the foregoing Cumberland Pharmaceuticals Inc. 2007 Directors' Incentive Plan was (i) approved by the Board in a Unanimous Consent of Directors dated as of January 16, 2007, and (ii) approved by majority of the holders of all of the Company's outstanding common and preferred stock.

Dated: April 18, 2007 (Section 5.2 amended, effective March 22, 2010)

/s/ Jean W. Marstiller

Jean W. Marstiller

Senior Vice President, Administrative Services
and Corporate Secretary

*Certain portions of this exhibit have been omitted pursuant to a request for confidential treatment which has been filed separately with the SEC.

SECOND AMENDMENT TO OFFICE LEASE AGREEMENT

THIS SECOND AMENDMENT TO OFFICE LEASE AGREEMENT (this “**Amendment**”) is entered into between **2525 WEST END, LLC**, a Delaware limited liability company (“**Landlord**”), and **CUMBERLAND PHARMACEUTICALS INC.**, a Tennessee corporation (“**Tenant**”), with reference to the following:

A. Nashville Hines Development, LLC (predecessor-in-interest to Landlord) and Tenant entered into that certain Office Lease Agreement dated September 10, 2005; Landlord and Tenant entered into that certain First Amendment to Office Lease Agreement dated April 25, 2008 (as amended, the “**Lease**”) currently covering approximately 9,291 RSF on the ninth (9th) floor (the “**Original Premises**”) of 2525 West End Avenue, Nashville, Tennessee (the “**Building**”).

B. Landlord and Tenant now desire to further amend the Lease as set forth below. Unless otherwise expressly provided in this Amendment, capitalized terms used in this Amendment shall have the same meanings as in the Lease.

FOR GOOD AND VALUABLE CONSIDERATION, the receipt and sufficiency of which are acknowledged, the parties agree as follows:

1. Expansion Space. Landlord leases to Tenant and Tenant leases from Landlord: (a) approximately 14,477 additional RSF located on the ninth (9th) floor of the Building (the “**Second Expansion Space**”) as shown on the attached **Exhibit “A”**, which is incorporated into this Amendment for all purposes, and (b) approximately 1,755 additional RSF located on the ninth (9th) floor of the Building (the “**Third Expansion Space**”) as shown on the attached **Exhibit “A”**. The term “**Premises**” as used in the Lease means and includes approximately 25,523 RSF, being the sum of the RSF of the Original Premises (9,291 RSF), the Second Expansion Space and the Third Expansion Space. The lease of the Second Expansion Space and Third Expansion Space is subject to all of the terms and conditions of the Lease currently in effect, except as modified in this Amendment. Tenant acknowledges that it has no further expansion or preferential rights or options under the Lease.

2. Second Extension Period. The Term of the Lease for the entire Premises shall be extended until October 31, 2016. Tenant acknowledges that it has no further extension or renewal rights or options under the Lease except as set forth in **Rider 1** attached to this Amendment.

3. Base Rental.

(a) Commencing on April 1, 2010, and continuing through the Second Extension Period, Tenant shall, at the time and place and in the manner provided in the Lease, pay to Landlord as Base Rental for the Third Expansion Space the amounts set forth in the following rent schedule, plus any applicable tax thereon:

| PERIOD | Rate | Monthly Base Rental |
|---------------------------------------|----------|---------------------|
| April 1, 2010 through May 31, 2010 | \$ [***] | \$ [***] |
| June 1, 2010 through October 31, 2010 | \$ [***] | \$ [***] |

- (b) Notwithstanding anything in the Lease to the contrary, commencing on November 1, 2010, and continuing through the Second Extension Period, Tenant shall, at the time and place and in the manner provided in the Lease, pay to Landlord as Base Rental for the Original Premises, the Second Expansion Space and the Third Expansion Space the amounts set forth in the following rent schedule, plus any applicable tax thereon:

| PERIOD | Rate | Monthly Base Rental |
|--|----------|---------------------|
| November 1, 2010 through December 31, 2011 | \$ [***] | \$ [***] |
| January 1, 2012 through December 31, 2012 | \$ [***] | \$ [***] |
| January 1, 2013 through December 31, 2013 | \$ [***] | \$ [***] |
| January 1, 2014 through December 31, 2014 | \$ [***] | \$ [***] |
| January 1, 2015 through December 31, 2015 | \$ [***] | \$ [***] |
| January 1, 2016 through October 31, 2016 | \$ [***] | \$ [***] |

4. Additional Rent. Commencing on April 1, 2010 and continuing through the Second Extension Period, Tenant's Additional Rental payable under Section 2.3 of the Lease shall be increased to take the Third Expansion Space into account, and commencing November 1, 2010 and continuing through the Second Extension Period, Tenant's Additional Rental shall be increased to take the Second Expansion Space into account. Commencing on November 1, 2010, the Expense Stop for the entire Premises, refers to Landlord absorbing and being responsible for paying Operating Expenses (as defined in the Lease) during any calendar year to the extent such Operating Expenses are less than Nine and 45/100 Dollars (\$9.45) per square foot of space in the Building leased to rent paying tenants as such term is used in Section 2.3(c) of the Lease.

5. Condition of the Second Expansion Space and Third Expansion Space.

(a) Tenant accepts the Second Expansion Space in its "as-is" condition. Tenant acknowledges that Landlord has not undertaken to perform any modification, alteration or improvement to the Second Expansion Space. **By taking possession of the Second Expansion Space, Tenant waives (i) any claims due to defects in the Second Expansion Space; AND (ii) all express and implied warranties of suitability, habitability and fitness for any particular purpose.** Tenant waives the right to terminate the Lease due to the condition of the Second Expansion Space.

(b) Tenant accepts the Third Expansion Space in its "as-is" condition. Tenant acknowledges that Landlord has not undertaken to perform any modification, alteration or improvement to the Third Expansion Space. **By taking possession of the Third Expansion Space, Tenant waives (i) any claims due to defects in the Third Expansion Space; AND (ii) all express and implied warranties of suitability, habitability and fitness for any particular purpose.** Tenant waives the right to terminate the Lease due to the condition of the Third Expansion Space.

6. Parking. In connection with the Second Expansion Space, Landlord hereby agrees to make available, or to cause the Garage Operator to make available, to Tenant (so long as Tenant shall continue to lease the Second Expansion Space) up to 58 permits ("**Second Expansion Space Permits**") to park in the Kensington Parking Facility upon the terms and conditions set forth in Section 3.4 of the Lease. In connection with the Third Expansion Space, Landlord hereby agrees to make available, or to cause the Garage Operator to make available, to Tenant (so long as Tenant shall continue to lease the Third Expansion Space) up to 7 permits ("**Third Expansion Space Permits**") to park in the Kensington Parking Facility upon the terms and conditions set forth in Section 3.4 of the Lease. Tenant shall pay as rental for the Second Expansion Space Permits and the Third Expansion Space Permits at the rate charged from time to time by Landlord (or the Garage Operator), in its sole and absolute discretion, plus any applicable taxes thereon. The current charge to Tenant for each Second Expansion Space Permit and Third Expansion Space Permit is \$45.00 per month, plus any applicable taxes thereon.

7. Second Amendment Improvement Allowance. Tenant shall receive an improvement allowance in the amount of \$[***] per RSF in the Original Premises and the Second Expansion Space (i.e., \$[***], the "**Second Amendment Improvement Allowance**") to be paid to Tenant within thirty (30) days after Tenant pays to Landlord the monthly Base Rental payment for November 1, 2010, provided that Tenant is not then in default under the Lease. The Second Amendment Improvement Allowance may be used for any costs relating to the Premises. However, Tenant shall not install any improvements which are not compatible with Landlord's plans and specifications for the Building or which have not received prior written approval by Landlord or Landlord's architect. Tenant agrees to comply with the terms of Section 5.1 of the Lease with respect to any Tenant work that is performed in the Premises.

8. Consent. This Amendment is subject to, and conditioned upon, any required consent or approval being unconditionally granted by Landlord's mortgagee(s). If any such consent shall be denied, or granted subject to an unacceptable condition, this Amendment shall be null and void and the Lease shall remain unchanged and in full force and effect.

9. No Broker. Tenant represents and warrants that it has not been represented by any broker or agent in connection with the execution of this Amendment. Tenant shall indemnify and hold harmless Landlord and its designated property management, construction and marketing firms, and their respective partners, members, affiliates and subsidiaries, and all of their respective officers, directors, shareholders, employees, servants, partners, members, representatives, insurers and agents from and against all claims (including costs of defense and investigation) of any broker or agent or similar party claiming by, through or under Tenant in connection with this Amendment.

10. Time of the Essence. Time is of the essence with respect to Tenant's execution and delivery to Landlord of this Amendment. If Tenant fails to execute and deliver a signed copy of this Amendment to Landlord by 5:00 p.m. (in the city in which the Premises is located) on _____, 2010, this Amendment shall be deemed null and void and shall have no force or effect, unless otherwise agreed in writing by Landlord. Landlord's acceptance, execution and return of this Amendment shall constitute Landlord's agreement to waive Tenant's failure to meet such deadline.

11. Miscellaneous. This Amendment shall become effective only upon full execution and delivery of this Amendment by Landlord and Tenant. This Amendment contains the parties' entire agreement regarding the subject matter covered by this Amendment, and supersedes all prior correspondence, negotiations, and agreements, if any, whether oral or written, between the parties concerning such subject matter. There are no contemporaneous oral agreements, and there are no representations or warranties between the parties not contained in this Amendment. Except as modified by this Amendment, the terms and provisions of the Lease shall remain in full force and effect, and the Lease, as modified by this Amendment, shall be binding upon and shall inure to the benefit of the parties hereto, their successors and permitted assigns.

[Signatures to follow]

LANDLORD AND TENANT enter into this Amendment as of the Effective Date (below).

LANDLORD:

2525 WEST END, LLC, a Delaware limited liability company

By: Cash Flow Asset Management, L.P.,
a Texas limited partnership, its sole manager

By: CFAM GP, L.L.C.,
a Texas limited liability company, its sole general partner

By: /s/ Daniel D. Dubrowski

Name: Daniel D. Dubrowski

Title: Partner

Effective Date: March 2, 2010

TENANT:

CUMBERLAND PHARMACEUTICALS INC., a Tennessee
corporation

By: /s/ A.J. Kazimi

Name: A.J. Kazimi

Title: Chief Executive Officer

[illegible]

Rider One

OPTION TO EXTEND

1. **Renewal Period.** Tenant may, at its option, extend the Second Extension Period (this “***Option to Extend***”) for one renewal period of six years (the “***Renewal Period***”) by written notice to Landlord (the “***Renewal Notice***”) given no earlier than 18 months nor later than 12 months prior to the expiration of the Second Extension Period, provided that at the time of such notice and at the commencement of such Renewal Period, (i) Tenant remains in occupancy of the entire Premises, and (ii) no uncured event of default exists under the Lease. The Base Rental payable during the Renewal Period shall be the Market Rental Rate (defined below) for the Premises. However, in no event shall the Base Rental for the Renewal Period be less than the Base Rental during the last year of the Second Extension Period. Except as provided in this **Rider One** all terms and conditions of the Lease shall continue to apply during the Renewal Period, except that Tenant shall have no further option to extend the Term.

2. **Acceptance.** Within 30 days of the Renewal Notice, Landlord shall notify Tenant of the Base Rental for such Renewal Period (the “***Rental Notice***”). Tenant may accept the terms set forth in the Rental Notice by written notice (the “***Acceptance Notice***”) to Landlord given within 15 days after receipt of the Rental Notice. If Tenant timely delivers its Acceptance Notice, Tenant shall, within 15 days after receipt, execute a lease amendment confirming the Base Rental and other terms applicable during the Renewal Period. If Tenant fails timely to deliver its Acceptance Notice, then this Option to Extend shall automatically expire and be of no further force or effect. In addition, this Option to Extend is personal to Cumberland Pharmaceuticals Inc. and shall not be assignable to any other person or entity. Any assignment of the Lease or the subletting by Tenant of all or any portion of the Premises shall terminate this Option to Extend. Any assignment in violation of this paragraph is void and of no force or effect. Furthermore, this Option to Extend shall be voidable at Landlord’s election if (i) Tenant fails timely to execute and return the required lease amendment, or (ii) an uncured event of default exists under the Lease or Tenant fails to occupy the entire Premises at the commencement of the Renewal Period.

3. **Market Rental Rate.** The “***Market Rental Rate***” is the rate (or rates) a willing tenant would pay and a willing landlord would accept for a comparable transaction (e.g., renewal, expansion, relocation, etc., as applicable, in comparable space and in a comparable building) as of the commencement date of the applicable term, neither being under any compulsion to lease and both having reasonable knowledge of the relevant facts, considering the highest and most profitable use if offered for lease in the open market with a reasonable period of time in which to consummate a transaction. In calculating the Market Rental Rate, all relevant factors will be taken into account, including the location and quality of the Building, lease term, amenities of the Building, condition of the space and any concessions and allowances commonly being offered by Landlord for comparable transactions in the Building. The parties agree that the best evidence of the Market Rental Rate will be the rate then charged for comparable transactions in the Building.

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

I, A.J. Kazimi, certify that:

1. I have reviewed this Form 10-Q of Cumberland Pharmaceuticals Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 17, 2010

By: /s/ A.J. Kazimi
A.J. Kazimi
Chief Executive Officer

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

I, David L. Lowrance, certify that:

1. I have reviewed this Form 10-Q of Cumberland Pharmaceuticals Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 17, 2010

By: /s/ David L. Lowrance

David L. Lowrance

Vice President and Chief Financial Officer

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND
CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2009 of Cumberland Pharmaceuticals Inc. (the "Company"), as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, A.J. Kazimi, Chief Executive Officer, and David L. Lowrance, Vice President and Chief Financial Officer, of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. section 1350), that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ A.J. Kazimi

A.J. Kazimi
Chief Executive Officer
May 17, 2010

/s/ David L. Lowrance

David L. Lowrance
Vice President and Chief Financial Officer
May 17, 2010