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 September 30, 2010

or

o **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	**62-1765329**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2525 West End Avenue, Suite 950, Nashville, Tennessee	**37203**
(Address of principal executive offices)	(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 o

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 o No o

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

Large accelerated filer o	Accelerated filer o	Non-accelerated filer ☑ (Do not check if a smaller reporting company)	Smaller reporting company o

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

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

Class	Outstanding at November 8, 2010
Common stock, no par value	20,310,328

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)

	September 30, 2010	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 65,518,340	$ 78,701,682
Accounts receivable, net of allowances	4,791,682	6,176,585
Inventories	7,646,228	4,822,873
Other current assets	1,940,778	3,472,455
Total current assets	79,897,028	93,173,595
Property and equipment, net	1,139,946	918,412
Intangible assets, net	7,580,168	7,956,009
Other assets	1,292,724	1,676,304
Total assets	$ 89,909,866	$ 103,724,320
LIABILITIES AND EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 2,666,668	$ 9,061,973
Current portion of other long-term obligations	12,035	144,828
Accounts payable	3,416,370	5,632,796
Other accrued liabilities	3,817,822	3,784,777
Total current liabilities	9,912,895	18,624,374
Revolving line of credit	1,825,951	1,825,951
Long-term debt, excluding current portion	3,333,332	8,938,027
Other long-term obligations, excluding current portion	211,757	184,632
Total liabilities	15,283,935	29,572,984
Commitments and contingencies		
Redeemable common stock	—	1,930,000
Equity:		
Shareholders' equity:		
Common stock — no par value; 100,000,000 shares authorized; 20,353,849 and 20,180,486(1) shares issued and outstanding as of September 30, 2010 and December 31, 2009, respectively	68,521,470	67,711,746
Retained earnings	6,161,252	4,542,126
Total shareholders' equity	74,682,722	72,253,872
Noncontrolling interests	(56,791)	(32,536)
Total equity	74,625,931	72,221,336
Total liabilities and equity	$ 89,909,866	$ 103,724,320

(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 December 31, 2009 was 142,016.

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Net revenues	$ 12,190,870	$ 13,597,760	$ 33,061,457	$ 32,822,972
Costs and expenses:				
Cost of products sold	909,434	1,761,069	2,632,447	3,271,363
Selling and marketing	5,692,048	6,087,807	17,147,683	14,611,796
Research and development	1,138,955	640,877	2,947,623	4,041,719
General and administrative	1,806,975	2,537,627	5,471,012	5,218,925
Amortization of product license right	171,732	171,726	515,184	515,178
Other	27,869	26,595	83,283	80,791
Total costs and expenses	9,747,013	11,225,701	28,797,232	27,739,772
Operating income	2,443,857	2,372,059	4,264,225	5,083,200
Interest income	48,675	14,285	159,688	42,041
Interest expense	(547,795)	(248,272)	(1,299,703)	(430,207)
Income before income taxes	1,944,737	2,138,072	3,124,210	4,695,034
Income tax expense	(943,141)	(855,660)	(1,529,339)	(1,919,356)
Net income	1,001,596	1,282,412	1,594,871	2,775,678
Net loss at subsidiary attributable to noncontrolling interests	6,648	5,725	24,255	26,420
Net income attributable to common shareholders	$ 1,008,244	$ 1,288,137	$ 1,619,126	$ 2,802,098
Earnings per share attributable to common shareholders				
- basic	$ 0.05	$ 0.08	$ 0.08	$ 0.23
- diluted	$ 0.05	$ 0.07	$ 0.08	$ 0.16
Weighted-average shares outstanding				
- basic	20,327,867	15,745,069	20,335,911	12,197,876
- diluted	20,803,182	19,183,606	21,135,762	17,143,348

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2010	**2009**
Cash flows from operating activities:		
Net income	$ 1,594,871	$ 2,775,678
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization expense	723,687	605,514
Non-employee equity compensation	62,547	1,046,192
Stock-based compensation — employee stock options	503,446	455,502
Excess tax benefit derived from exercise of stock options	(1,256,913)	(2,842,825)
Non-cash interest expense	328,475	83,420
Net changes in assets and liabilities affecting operating activities:		
Accounts receivable	1,384,903	(4,054,710)
Inventory	(2,823,355)	75,185
Other current assets and other assets	1,461,538	936,286
Accounts payable and other accrued liabilities	(840,429)	3,299,235
Other long-term obligations	(105,668)	(455,723)
Net cash provided by operating activities	1,033,102	1,923,754
Cash flows from investing activities:		
Additions to property and equipment	(311,301)	(199,312)
Additions to patents	(132,047)	(71,358)
Net cash used in investment activities	(443,348)	(270,670)
Cash flows from financing activities:		
Proceeds from initial public offering	—	85,000,000
Costs of initial public offering	—	(7,385,124)
Proceeds from borrowings on long-term debt	—	18,000,000
Principal payments on note payable	(12,000,000)	(5,000,000)
Costs of financing for long-term debt and credit facility	(82,500)	(189,660)
Proceeds from exercise of stock options	1,182,139	64,275
Excess tax benefit derived from exercise of stock options	1,256,913	2,842,825
Repurchase of common shares	(4,129,648)	(27,273,677)
Net cash (used in) provided by financing activities	(13,773,096)	66,058,639
Net (decrease) increase in cash and cash equivalents	(13,183,342)	67,711,723
Cash and cash equivalents at beginning of period	78,701,682	11,829,551
Cash and cash equivalents at end of period	$ 65,518,340	$ 79,541,274
Supplemental disclosure of cash flow information:		
Non-cash investing and financing activities:		
Deferred financing costs	—	335,075
Common shares repurchased during period but not paid as of the end of the period	22,207	—

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Common stock		Retained earnings	Non-controlling interests	Total equity
	Shares	Amount			
Balance, December 31, 2009	20,180,486	$67,711,746	$ 4,542,126	$ (32,536)	$72,221,336
Stock-based compensation — nonemployees	5,636	89,081	—	—	89,081
Exercise of options and related tax benefit, net of mature shares redeemed for the exercise price	672,794	2,439,052	—	—	2,439,052
Stock-based compensation — employees	—	503,446	—	—	503,446
Repurchase of shares	(505,067)	(4,151,855)	—	—	(4,151,855)
Reclass of redeemable common stock	—	1,930,000	—	—	1,930,000
Net and comprehensive income	—	—	1,619,126	(24,255)	1,594,871
Balance, September 30, 2010	20,353,849	$68,521,470	$ 6,161,252	$ (56,791)	$74,625,931

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 three and nine months ended September 30, 2010 are not necessarily indicative of the results to be expected for the entire fiscal year or any future period.

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.

Total comprehensive income was comprised solely of net income for the three and nine months ended September 30, 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 September 30, 2010 for accounting and disclosure implications.

(2) EARNINGS PER SHARE

The following tables reconcile the numerator and denominator used to calculate diluted earnings per share for the three and nine months ended September 30, 2010 and 2009:

	Three Months Ended September 30,	
	2010	2009
Numerator:		
Net income attributable to common shareholders	$ 1,008,244	$ 1,288,137
Denominator:		
Weighted-average shares outstanding — basic	20,327,867	15,745,069
Convertible preferred stock shares	—	714,505
Dilutive effect of other securities	475,315	2,724,032
Weighted-average shares outstanding — diluted	20,803,182	19,183,606

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

	Nine Months Ended September 30,	
	2010	2009
Numerator:		
Net income attributable to common shareholders	$ 1,619,126	$ 2,802,098
Denominator:		
Weighted-average shares outstanding — basic	20,335,911	12,197,876
Convertible preferred stock shares	—	1,320,717
Dilutive effect of other securities	799,851	3,624,755
Weighted-average shares outstanding — diluted	21,135,762	17,143,348

As of September 30, 2010 and 2009, options to purchase 1,200,017 and 231,185 shares of common stock, respectively, were outstanding but were not included in the computation of diluted EPS because the effect would be antidilutive.

(3) REVENUES

The Company had sales to non-U.S. customers of $0.1 million and $0 during the three months ended September 30, 2010 and 2009, respectively. The Company had sales of approximately $0.1 million to non-U.S. customers during the nine months ended September 30, 2010 and $0.7 million during the nine months ended September 30, 2009.

The Company's net revenues consisted of the following for the three and nine months ended September 30, 2010 and 2009:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Products:				
Acetadote	$ 9,600,427	$ 7,686,250	$ 25,632,260	$ 22,059,455
Kristalose	2,506,894	2,476,400	7,088,294	7,223,744
Caldolor	14,103	3,246,370	79,184	3,246,370
Other	69,446	188,740	261,719	293,403
Total net revenues	$ 12,190,870	$ 13,597,760	$ 33,061,457	$ 32,822,972

(4) DEBT

On September 29, 2010, the Company entered into an amendment of its loan agreement with Bank of America, N.A. (the "Agreement"). The amendment provided for an increase in the availability under the existing line of credit from $4.0 million to $6.0 million, with interest payable monthly at LIBOR plus an Applicable Margin, as defined in the Agreement (5.76% at September 30, 2010). In addition, the term debt was reduced to $6.0 million, with quarterly payments under the term debt reduced from $1.5 million to $666,667, plus interest at the same rate as the line of credit, beginning December 31, 2010. The Company reduced its commitment fee from three-quarters of one percent (0.75%) to one-half of one percent (0.50%) per annum on the unused line of credit. The borrowings are collateralized by a first priority lien on all of the Company's assets.

The Agreement's covenants include a Leverage Ratio, as defined in the Agreement, of 2.00 to 1.00 for the quarter ended December 31, 2010, 1.75 to 1.00 for each of the three quarters ended March 31, 2011, June 30, 2011 and September 30, 2011 and 1.25 to 1.00 for quarter ending December 31, 2011 and thereafter, as well as a Fixed Charge Coverage Ratio, as defined in the Agreement, of at least 1.25 to 1.00 at each quarter-annual reporting period. In addition, the Company must maintain deposits with Bank of America, N.A. at amounts equal to at least the sum of (a) the maximum amount of the line of credit plus (b) the aggregate principal amount then outstanding under the term debt.

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

The Company is subject to additional loan fees if certain performance metrics measured at March 31, 2011 and September 30, 2011 are not met. If required, the additional loan fee amounts of $102,000 each are due within 45 days of the end of the respective period. As of September 30, 2010, the Company has not recognized any additional loan fees.

Concurrent with the amendment of the Agreement, the Company elected to prepay approximately $5.9 million of its term debt, incurring a prepayment penalty of approximately $0.2 million. The prepayment penalty is included as a component of interest expense for the three and nine months ended September 30, 2010.

(5) SHAREHOLDERS' EQUITY

In February and April 2010, the Company repurchased 163,022 shares of common stock totaling approximately $1.9 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.

In May 2010, the Company announced a share repurchase program to repurchase up to $10.0 million of its outstanding common shares. Pursuant to the plan, the Company repurchased 342,045 shares for approximately $2.2 million through September 30, 2010.

During 2010, options to purchase 690,740 shares of common stock were exercised. In connection with these exercises, 17,946 shares of mature stock were tendered as consideration for the exercise price and minimum statutory tax withholding requirements. The exercise of these options created a tax deduction of approximately $5.0 million, of which approximately $2.6 million was used to offset the estimated tax liability arising from the results of operations for the nine months ended September 30, 2010. As of September 30, 2010, the Company has unrecognized tax deductions of approximately $67.9 million that will be recognized when the deduction reduces income taxes payable.

(6) 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.

(7) SUBSEQUENT EVENTS

Pursuant to our share repurchase plan announced in May 2010, the Company repurchased an additional 50,921 shares for approximately $0.3 million for the period from October 1, 2010 to November 8, 2010. The weighted-average repurchase price was $6.43 per share.

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; our ability to continue to acquire branded products; product sales; and management of our growth and integration of potential 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 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 approved in the United States, and Kristalose® (*lactulose*) for Oral Solution, a prescription laxative. We market and sell our products through our hospital and field 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 projected 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 through 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 became profitable in 2004, and since then 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.

Growth Strategy

Our growth strategy involves maximizing the potential of our existing products and continuing to build a portfolio of new, differentiated products. Specifically, we expect to grow by executing the following plans:

- We market our products in the United States through a comprehensive marketing and promotional effort, and we are working to bring our products to select international markets — with our first international launch occurring in the third quarter of 2010.

- We look for opportunities to expand into additional patient populations with new product indications, whether through our own development work or by supporting promising 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.
- We are supplementing the aforementioned growth tactics with the early-stage drug development activities of Cumberland Emerging Technologies, Inc. (CET), our majority-owned subsidiary. CET partners with university research centers to identify and cost-effectively develop promising early-stage product candidates, which 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 by the SEC at www.sec.gov.

Recent Developments

Submission of Application for New Formulation of Acetadote

In October 2010, we submitted an application to the U.S. Food and Drug Administration (FDA) for approval of a new formulation of Acetadote. The new formulation is designed to replace the currently marketed product and is the result of our commitment to further developing our products, whether to expand into new patient populations or to improve upon our products. We believe the testing and manufacturing work we undertook with this new formulation of Acetadote demonstrates that it offers improvements over the currently marketed product and, upon potential approval by the FDA, plan to introduce it to the hospital community.

We expect to receive a response from the FDA in January 2011 and, if the new formulation is approved, would commence with the new product launch immediately. We have also filed a patent application with the U.S. Patent and Trademark Office to protect the proprietary new formulation.

Supplemental New Drug Applications for Acetadote

In March 2010, we submitted a supplemental new drug application (sNDA) to the 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. The study showed that these patients can also survive a significant number of days longer without transplant, which would provide 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 with a response expected in September 2010. In August 2010, we announced that the FDA extended its review of the sNDA by three months, resulting in a new Prescription Drug User Fee Act (PDUFA) goal date in December 2010.

In addition to expanded labeling for Acetadote, we have requested additional exclusivity for the product. As discussed in our Annual Report on Form 10-K for the year ended December 31, 2009, our original market exclusivity continues until January 2011.

Launch of Acetadote in Australia

In April 2010, the Therapeutic Goods Administration granted approval to our partner Phebra Pty Ltd., an Australian-based specialty pharmaceutical company, for the commercialization of Acetadote in Australia. In October 2010, Phebra commenced with the Australian launch of Acetadote and began reaching out to hospitals to promote wide distribution of the product. This introduction of Acetadote in Australia marked Cumberland's entry into international markets.

In addition to Australia, Phebra has exclusive marketing rights to Acetadote for New Zealand and has obtained marketing approval in that country. Phebra is also our marketing partner for Acetadote in certain Asia Pacific markets, and continues to work toward obtaining approval for the product in those areas.

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

Transfer of License Rights

As previously reported, CET entered into an agreement with Vanderbilt University to license a new product candidate. In the third quarter of 2010, Cumberland Pharmaceuticals entered into an agreement with CET to assume the rights and responsibilities associated with the product candidate.

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. Although we participate in governmental programs that would subject us to this fee, our sales volume in such programs is less than $10 million, with the first $5 million of sales being exempt from the fee. We do not anticipate this fee will have a material impact on our results of operations.

Medicaid Rebate Rate

We currently provide rebates for Kristalose sold to Medicaid beneficiaries. Effective January 1, 2010, the rebate increased from eleven percent to thirteen percent of the average manufacturer price. Our sales of Kristalose under the Medicaid program have been increasing. We expect the increased rebate percentage will impact our net revenue for Kristalose by less than $0.1 million for the year ended December 31, 2010.

Therapeutic Discovery Project Credit

The legislation established a fifty-percent nonrefundable investment tax credit or grant 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 submitted applications for four of our research projects prior to the deadline of July 21, 2010. In November 2010, we received a response from the Internal Revenue Service indicating that all four projects were approved. We have the ability to receive grants of up to approximately $860,000 based on actual 2009 and 2010 expenditures. We anticipate receiving these funds in late 2010 or early 2011.

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. The adoption of this guidance did not 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 September 30, 2010 compared to the three months ended September 30, 2009

Net revenues. Net revenues for the three months ended September 30, 2010 totaled approximately $12.2 million, representing a decrease of approximately $1.4 million, or 10%, over the same period in 2009. With the initial launch of Caldolor in the third quarter of 2009, which represented approximately $3.2 million of net revenue, we achieved our goal of national distribution of Caldolor with our wholesalers in preparation of the launch. Acetadote revenue for the three months ended September 30, 2010 increased $1.9 million as compared to the same period in 2009 and Kristalose revenue remained consistent between the periods. Also impacting net revenue was an increase in our gross-to-net revenue adjustments associated with expired products, rebates for state and managed-care activity and fee for service arrangements.

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 promotion of Caldolor while maintaining a consistent level of focus on Acetadote and Kristalose, which is evidenced by the sales performance of these two products.

Cost of products sold. Cost of products sold as a percentage of net revenues decreased from 13.0% for the three months ended September 30, 2009 to 7.5% for the same period in 2010. The decrease in cost of products sold as a percentage of net revenues was primarily due to the sales mix in the periods.

Research and development. Research and development expense for the three months ended September 30, 2010 totaled approximately $1.1 million, representing an increase of approximately $0.5 million, or 78%, over the same period in 2009. The increase was primarily due to additional costs incurred in 2010 related to annual FDA product and establishment fees and increased costs related to development efforts for our products and product candidates.

General and administrative. General and administrative expense for the three months ended September 30, 2010 totaled approximately $1.8 million, representing a decrease of approximately $0.7 million, or 29%, over the same period in 2009. The decrease is primarily due to the inclusion in 2009 of approximately $1.0 million of payroll tax associated with the exercise of nonqualified stock options by an employee, offset by increased expenses of being an SEC registrant, including legal, accounting and insurance costs. In addition, we incurred additional foreign currency expense associated with our products bought from overseas suppliers in 2009.

Interest expense. Interest expense for the three months ended September 30, 2010 totaled approximately $0.5 million, representing an increase of approximately $0.3 million as compared to the same period in 2009. The increase is primarily attributable to the inclusion in 2010 of approximately $0.1 million of deferred financing costs and approximately $0.2 million of prepayment fees associated with the early extinguishment and modification of our term debt facility in September 2010. As noted in footnote 4 to the condensed consolidated financial statements included herein, we amended our debt facility with Bank of America, N.A. in September 2010.

Income tax expense. Income tax expense for the three months ended September 30, 2010 totaled approximately $0.9 million, representing an increase of $0.1 million over the same period in 2009. As a percentage of income before income taxes, income tax expense increased from 40.0% for the three months ended September 30, 2009 to 48.5% for the three months ended September 30, 2010. The increase in the percentage was due to an increase in our projected tax rate for 2010 as a result of an increase in our permanent differences, primarily option expense for incentive stock options, relative to our income before income taxes.

During 2009 and 2010, significant stock options were exercised that resulted in an excess tax benefit to the Company. As of September 30, 2010, we have approximately $67.9 million of these tax deductions available to us that will be used to offset future income tax liabilities. In accordance with current accounting pronouncements, these deductions have not been recognized in the condensed consolidated balance sheet as of September 30, 2010. We will recognize the tax benefits in future periods when they are used to offset taxes payable. We expect our cash outflow related to income tax payments to be minimal during 2010 and 2011.

Nine months ended September 30, 2010 compared to the nine months ended September 30, 2009

Net revenues. Net revenues for the nine months ended September 30, 2010 totaled approximately $33.1 million, representing an increase of approximately $0.2 million, or 1%, over the same period in 2009. Net revenue increased $3.6 million for Acetadote and decreased $0.1 million and $3.2 million for Kristalose and Caldolor, respectively. During the third quarter of 2009, we achieved our goal of national distribution of Caldolor with our wholesalers in preparation of the launch. The increase in Acetadote revenue was positively impacted by a 5% increase in volume and an increase in the average selling price, offset by an increase in fee-for-service deductions due to additional arrangements with our wholesalers. While Kristalose gross revenue increased, net revenue was impacted by an increase in the gross-to-net revenue deductions primarily associated with rebates and expired product returns. Additionally, in the third quarter of 2009, we completed the commercial launch of Caldolor, and recognized $3.2 million of net revenue in 2009. Our sales forces continue to maintain a consistent level of focus on Acetadote and Kristalose while they progress the promotion of Caldolor.

Cost of products sold. Cost of products sold as a percentage of net revenues decreased from 10.0% for the nine months ended September 30, 2009 to 8.0% for the same period in 2010. This decrease was primarily due to the sales mix in the periods.

Selling and marketing. Selling and marketing expense for the nine months ended September 30, 2010 totaled approximately $17.1 million, representing an increase of approximately $2.5 million, or 17%, over the same period in 2009. The increase was primarily due to the expansion of our hospital sales force during the third quarter of 2009, and the resulting increases in payroll and related taxes, travel, meals and promotional activities. These increases were offset by a decrease in market research, advertising, hiring and meeting expenses related to Caldolor in 2010 as compared to the significant investment made in 2009 related to the Caldolor launch.

Research and development. Research and development expense for the nine months ended September 30, 2010 totaled approximately $2.9 million, representing a decrease of approximately $1.1 million, or 27%, over the same period in 2009. The decrease was primarily due to the inclusion in 2009 of approximately $2.0 million of milestone expenses incurred upon the FDA approval of Caldolor in June 2009. This decrease was offset by additional costs incurred in 2010 related to annual FDA product and establishment fees, increased salary and related expenses resulting from an increase in personnel and increased costs related to furthering our development efforts for our products and product candidates.

General and administrative. General and administrative expense for the nine months ended September 30, 2010 totaled approximately $5.5 million, representing an increase of approximately $0.3 million, or 5%, over the same period in 2009. The increase is primarily due to additional expenses associated with being an SEC registrant, including legal, accounting and insurance costs.

Interest income. Interest income for the nine months ended September 30, 2010 totaled approximately $0.2 million, representing an increase of approximately $0.1 million, or 280%, over the same period in 2009. The increase was primarily due to the higher cash balances maintained in 2010 as a result of the proceeds received from the initial public offering in the third quarter of 2009.

Interest expense. Interest expense for the nine months ended September 30, 2010 totaled approximately $1.3 million, representing an increase of approximately $0.9 million as compared to the same period in 2009. The increase is primarily attributable to (1) an average higher outstanding debt balance in 2010 as compared to 2009 and (2) the inclusion of approximately $0.1 million of deferred financing costs and approximately $0.2 million of prepayment fees associated with the early extinguishment and amendment of our term debt facility in September 2010. As noted in footnote 4 to the condensed consolidated financial statements included herein, we amended our debt facility with Bank of America, N.A. in September 2010.

Income tax expense. Income tax expense for the nine months ended September 30, 2010 totaled approximately $1.5 million, representing a decrease of approximately $0.4 million, over the same period in 2009. As a percentage of income before income taxes, income tax expense increased from 40.9% for the nine months ended September 30, 2009 to 49.0% for the nine months ended September 30, 2010. The increase in the percentage was due to an increase in our projected tax rate for 2010 as a result of an increase in our permanent differences, primarily option expense for incentive stock options, relative to our income before income taxes.

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 September 30, 2010 and December 31, 2009, cash and cash equivalents was $65.5 million and $78.7 million, respectively, working capital (current assets minus current liabilities) was $70.0 million and $74.5 million, respectively, and our current ratio (current assets to current liabilities) was 8.1x and 5.0x, respectively. As of September 30, 2010, we had an additional $4.2 million available to us under our line of credit.

The information included in footnote 4 to the condensed consolidated financial statements included herein is hereby incorporated by reference into this Item.

The following table summarizes our net changes in cash and cash equivalents for the nine months ended September 30, 2010 and 2009:

	Nine Months Ended September 30,	
	2010	2009
	(in thousands)	
Net cash provided by (used in):		
Operating activities	$ 1,033	$ 1,924
Investing activities	(443)	(271)
Financing activities	(13,773)	66,059
Net (decrease) increase in cash and cash equivalents (1)	$ (13,183)	$ 67,712

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

The net decrease in cash and cash equivalents of $13.2 million for the nine months ended September 30, 2010 was primarily due to cash used in financing activities, which included (1) principal payments on our term debt of $12.0 million, (2) the repurchase of common stock of approximately $4.1 million. These expenditures were offset by proceeds from the exercise of stock options of approximately $1.2 million and the excess tax benefit derived from the exercise of nonqualified options of approximately $1.3 million. Cash provided by operating activities for the nine months ended September 30, 2010 was primarily due to net income for the period and the collection of the receivables associated with these sales.

The net increase in cash and cash equivalents of $67.7 million for the nine months ended September 30, 2009 was primarily due to the net cash proceeds from our initial public offering in August 2009 offset by the repurchase of common shares associated with the tendering of shares to settle the minimum statutory tax withholding requirement resulting from the exercise of nonqualified options by an employee.

The share repurchase program discussed in Part II, Item 2, is incorporated by reference into this Item.

OFF-BALANCE SHEET ARRANGEMENTS

During the nine months ended September 30, 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 (5.76% at September 30, 2010). As of September 30, 2010, we had outstanding borrowings of approximately $7.8 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 $0.1 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 September 30, 2010, our outstanding payables denominated in a foreign currency totaled $0.1 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 nine months ended September 30, 2010. Neither a 10% increase nor decrease from current exchange rates would have a significant effect on our operating results or financial condition.

Item 4: 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 September 30, 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 third quarter of 2010, there have been no changes in the Company's internal controls 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 September 30, 2010, we have used approximately $4.2 million of the net proceeds to pay off existing term debt with Bank of America and approximately $13.3 million for the launch of Caldolor, including $7.0 million for marketing and commercialization and approximately $6.3 million for the expansion of our sales force, and approximately $1.6 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 September 30, 2010:

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plan or Programs
July 1 – July 31	104,819	$ 6.16	301,243	$ 8,007,858(1)
August 1 – August 31	—	—	—	—
September 1 – September 30	40,802	$ 5.47	342,045	$ 7,784,699
Total	145,621			

(1) On May 13, 2010, we announced a share repurchase program to purchase up to $10 million of our common stock pursuant to Rule 10b-18 of the Securities Act.

Item 6: Exhibits

No.	Description
10.18#	2007 Long-Term Incentive Compensation Plan of Cumberland Pharmaceuticals Inc., as amended on November 4, 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.

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: November 15, 2010

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

Dated: November 15, 2010

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

Exhibit 10.18

2007 LONG-TERM INCENTIVE COMPENSATION PLAN,
AS AMENDED ON NOVEMBER 4, 2010

CUMBERLAND PHARMACEUTICALS INC.
2007 LONG-TERM INCENTIVE COMPENSATION PLAN,
AS AMENDED ON NOVEMBER 4, 2010

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CUMBERLAND PHARMACEUTICALS INC.
2007 LONG-TERM INCENTIVE COMPENSATION PLAN,
AS AMENDED ON NOVEMBER 4, 2010

This Cumberland Pharmaceuticals Inc. 2007 Long-Term Incentive Compensation Plan, as amended on November 4, 2010 (the "Plan"), effective November 4, 2010, is established primarily to encourage employees and Consultants of Cumberland Pharmaceuticals Inc. (the "Company"), its Affiliates, and its joint ventures to acquire Stock and other equity-based interests in the Company. It is believed that the Plan will stimulate employees' and Consultants' efforts on the Company's behalf, will tend to maintain and strengthen their desire to remain with the Company, will be in the interest of the Company and its shareholders, and will encourage such employees and Consultants to have greater personal financial investment in the Company through ownership of its Stock. The Plan supersedes and replaces 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.

1. Definitions

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

"Blackout Period" means any period self-imposed by the Company or required under applicable law that restricts the purchase and sale of the Stock by designated persons for a period of time.

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

"Cause" shall mean: (a) theft of property belonging to the Company or one of its Affiliates (including but not limited to trade secrets and confidential information); (b) fraud on the Company or one of its Affiliates; (c) conviction of, or pleading "no contest" to, a felony committed while employed by or consulting for the Company or one of its Affiliates; (d) breach of fiduciary duty to the Company or one of its Affiliates; or (e) deliberate, willful or gross misconduct related to the Company or an Affiliate.

The "Code" means the Internal Revenue Code of 1986, as amended, or any successor code thereto.

The "Committee" means the Compensation Committee of the Board of Directors of the Company.

The "Company" means Cumberland Pharmaceuticals Inc.

"Consultant" means a person engaged to provide consulting or advisory services (other than as an Employee or a member of the Board) to the Company or one of its Affiliates or joint ventures, provided that the identity of such person, the nature of such services or the Person to which such services are provided would not preclude the Company from offering or selling securities to such person pursuant to the Plan in reliance on registration on a Form S-8 Registration Statement under the Securities Act.

"Covered Employee" means an employee, as described in Section 162(m) of the Code and the associated Treasury regulations, who, on the last day of the Company's taxable year, is either the Company's Chief Executive Officer or among the four highest compensated employees of the Company or one of its Affiliates.

"Division" means a section of the Company or an Affiliate.

"Eligible Employee" means a regular full-time or part-time employee of one of the Related Entities, including officers, whether or not under direction of the Company.

"Employment Termination" means termination of the employment of an individual who is employed by one of the Related Entities, provided that termination of an individual from a Related Entity for the purpose of immediately transferring such individual to another Related Entity shall not constitute "Employment Termination" for purposes of this Plan.

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

"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 Stock shall be the price at which the Stock is offered to the public in its initial public offering.

"Incentive Option" means an Option that by its terms is to be treated as an "incentive stock option" within the meaning of Section 422 of the Code.

"Incentives" means awards made under this Plan of any of the following, or any combination of the following: (a) Options (including both Incentive Options and Nonstatutory Stock Options); (b) Stock Appreciation Rights; and (c) Restricted Stock.

"Nonstatutory Stock Option" means any Option that is not an Incentive Option.

"Option" means an option to purchase one or more shares of the Company's Stock.

"Participant" means any holder of an Incentive awarded under the Plan.

"Performance Criteria" means the criteria that the Committee selects for purposes of establishing the Performance Goal or Performance Goals for a Covered Employee for a Performance Period. The Performance Criteria used to establish Performance Goals include but are not limited to: pre- or after-tax net earnings, sales growth, operating earnings, operating cash flow, return on net assets, return on shareholders' equity, return on assets, return on capital, stock price growth, shareholder returns, gross or net profit margin, earnings per share, price per share of stock, and market share, any of which may be measured either in absolute terms or as compared to any incremental increase or as compared to results of a peer group. The Committee will, within the time prescribed by Section 162(m) of the Code, objectively define the manner of calculating the Performance Criteria it selects to use for such Performance Period for Covered Employees who received Qualified Performance-Based Incentives.

"Performance Goals" means, for a Performance Period, the written goals established by the Committee for the Performance Period based upon the Performance Criteria. Depending on the Performance Criteria used to establish such Performance Goals, the Performance Goals may be expressed in terms of overall Company performance or the performance of an Affiliate or Division or a joint venture of which the Company or an Affiliate is a member.

"Performance Period" means the one or more periods of time, which may be of varying and overlapping durations, selected by the Committee, over which the attainment of one or more Performance Goals will be measured for purposes of determining a Covered Employee's right to, and the payment of, a Qualified Performance-Based Incentive.

"Plan" shall refer to the Cumberland Pharmaceuticals Inc. 2007 Long-Term Incentive Compensation Plan, as amended on November 4, 2010 described in this document.

"Qualified Performance-Based Incentives" means awards of Incentives intended to qualify as "performance-based compensation" under Section 162(m) of the Code.

"Related Entities" shall refer to the Company and its Affiliates and to joint ventures in which the Company or one of its Affiliates is a member.

"Restricted Stock" means shares of Stock granted to a Participant subject to a Risk of Forfeiture.

"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.

"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.

"SARs" shall refer to Stock Appreciation Rights.

"Securities Act" shall mean the Securities Act of 1933, as amended.

"Stock" shall refer to one or more shares of the Company's Stock.

"Terminated Employee" means an individual who meets the following criteria:

(a) the individual is granted Incentives under this Plan at a time when he or she is employed by one of the Related Entities; and

(b) the individual is thereafter terminated from a Related Entity due to: (i) such person's voluntary resignation, retirement, death, or extended absence from work as a consequence of disability; (ii) a reduction in force; (iii) a termination without Cause; or (iv) any other reason not covered by subsection 4(b) below, provided that an individual who is terminated merely for purposes of transferring such individual from one Related Entity to another shall not constitute a "Terminated Employee" for purposes of this definition.

"Stock Appreciation Right" means a right to receive any excess in the Fair Market Value of shares of Stock over a specified exercise price.

2. Incentives

Incentives under the Plan may be granted to Eligible Employees in any one or a combination of: (a) Incentive Options (or other statutory stock option); (b) Nonstatutory Stock Options; (c) SARs; and (d) Restricted Stock. Incentives under the Plan may be granted to Consultants in any one or a combination of: (a) Nonstatutory Stock Options, (b) SARs, and (c) Restricted Stock. All Incentives shall be subject to the terms and conditions set forth herein and to such other terms and conditions as may be established by the Committee, except that the provisions of this Plan shall not apply retroactively to any Incentive issued before the effective date of this Plan. Determinations by the Committee under the Plan (including, without limitation, determinations as to the Eligible Employees; the form, amount and timing of Incentives; and the terms and provisions of agreements evidencing Incentives) need not be uniform and may be made selectively among Eligible Employees and Consultants who receive, or are eligible to receive, Incentives, whether or not such Eligible Employees and Consultants are similarly situated.

3. Administration

(a) *Committee*. The Plan shall be administered by the Committee. No person who makes or participates in making an award under this Plan, whether as a member of the Committee, a delegate of the Committee, or in any other capacity, shall make or participate in making an award to himself or herself. No member of the Board or person acting pursuant to the authority delegated by the Committee shall be liable for any action or determination relating to or under the Plan made in good faith.

(b) *Powers of Committee*. The Committee will have full discretionary power to administer the Plan in all of its details, subject to applicable requirements of law. For this purpose, in addition to all other powers provided by this Plan, the Committee's discretionary powers will include, but will not be limited to, the following discretionary powers:

(i) To make and enforce such rules and regulations as it deems necessary or proper for the efficient administration of the Plan;

(ii) To interpret the Plan;

(iii) To decide all questions concerning the Plan and the eligibility of any person to participate in the Plan, and the determination of whether a worker is an Eligible Employee shall be made in the sole and exclusive discretion of the Committee;

(iv) To appoint such agents, counsel, accountants, consultants and other persons as may be required to assist in administering the Plan;

(v) To the extent allowed by law, to delegate some or all of its power and authority to the Company's Chief Executive Officer, other senior members of management, or committee or subcommittee, as the Committee deems appropriate. However, the Committee may not delegate its authority with regard to any matter or action affecting an officer subject to the Exchange Act;

(vi) To impose such restrictions and limitations on any awards granted under the Plan as it may deem advisable, including, but not limited to share ownership or holding period requirements and requirements to enter into or to comply with confidentiality agreements and, to the extent allowed by law, non-competition and other restrictive or similar covenants.

(vii) To correct any defect, supply any omission or reconcile any inconsistency in the Plan or any award made under the Plan in the manner and to the extent it shall deem expedient to carry the Plan into effect and it shall be the sole and final judge of such expediency; and

Any determination by the Committee or its delegate(s) shall be final, binding and conclusive on all persons, in the absence of clear and convincing evidence that the Committee or its delegates(s) acted arbitrarily and capriciously.

(c) *Vesting Period*. If applicable, the Committee shall determine the vesting period for Incentives granted under this Plan and shall specify such vesting period in writing in making an award of an Incentive under this Plan. However, should the Committee award Options or SARs under this Plan without specifying a vesting period, (i) any SAR awarded in tandem with any underlying Option shall vest on the date that its underlying Option vests, and (ii) Options and SARs awarded without an underlying Option shall vest on a graduated basis over a five-year period, with 20% of the Options (or, if applicable, the SARs) vesting on each anniversary of the date of grant until all Options (or, if applicable, SARs) covered by the grant are vested.

(d) *Compliance with Code Section 409A.* It is intended that the Incentives granted under this Plan shall be exempt from, or in compliance with, Code Section 409A. This Plan is intended to comply with Code Section 409A only if and to the extent applicable. In this respect, any ambiguous provision will be construed in a manner that is compliant with or exempt from the application of Code Section 409A. To the extent applicable, the Plan and granting documents prepared in connection with the Plan shall be interpreted in accordance with §409A of the Code. To the extent that an Incentive, issuance and/or payment is subject to Section 409A, it shall be awarded, issued and paid in a manner that will comply with Section 409A, as determined by the Committee. If any provision of this Plan (or of any Incentive) would cause a Participant to incur any additional tax or interest under Code Section 409A and accompanying Treasury regulations and other authoritative guidance thereunder, the Company shall, after consulting with the Participant, reform such provision to comply with Code Section 409A to the extent permitted under Code Section 409A; provided, however, the Company agrees to maintain, to the maximum extent practicable, the original intent and economic benefit to the Participant of the applicable provision without violating the provisions of Code Section 409A. Furthermore, to the extent that the Board determines that any Incentive granted under the Plan is subject to §409A of the Code, the granting document evidencing such Incentive shall incorporate the terms and conditions required by §409A of the Code. To the extent applicable, the Plan and granting documents prepared in connection with the Plan shall be interpreted in accordance with §409A of the Code. Notwithstanding any provision of the Plan to the contrary, in the event that, following the effective date of this Plan, the Board determines that any Incentive may be subject to §409A of the Code, the Board may adopt such amendments to the Plan and the applicable granting document or adopt other policies and procedures (including amendments, policies and procedures with retroactive effect), or take any other actions that the Board determines are necessary or appropriate to (1) exempt the Incentive from §409A of the Code and/or preserve the intended tax treatment of the benefits provided with respect to the Incentive or (2) comply with the requirements of §409A of the Code.

(e) *Documentation of Award of Incentive*. Each Incentive awarded under this Plan shall be evidenced in such written form as the Committee shall determine. Each award may contain terms and conditions in addition to those set forth in the Plan.

(f) *Participants Outside the United States*. The Committee may modify the terms of any Incentive granted under the Plan to a Participant who is, at the time of grant or during the term of the Incentive, resident or primarily employed outside of the United States. Such modification, which may be made in any manner deemed by the Committee to be necessary or appropriate, shall only be made in order that the Incentive shall conform to laws, regulations, and customs of the country in which the Participant is then resident or primarily employed, or so that the value and other benefits of the Incentive to the Participant, as affected by foreign tax laws and other restrictions applicable as a result of the Participant's residence or employment abroad, shall be comparable to the value of such an Incentive to a Participant who is resident or primarily employed in the United States. The Committee may establish supplements to, or amendments, restatements, or alternative versions of, the Plan for the purpose of granting and administrating any such modified Incentive. No such modification, supplement, amendment, restatement or alternative version may increase the share limits set forth in this Plan or violate any applicable law of the United States.

4. Eligibility/Forfeiture in the Event of Termination for Cause

(a) *Eligibility*. Eligible Employees may receive Incentives under this Plan. Those members of the Board who are not Eligible Employees are not eligible to receive Incentives under this Plan. Consultants are eligible to receive Incentives to the extent specified in Section 2 above.

(b) *Forfeiture*. If the Company or one of its Affiliates or joint ventures terminates an Eligible Employee for Cause or cancels the engagement of a Consultant for Cause or discovers facts that would have entitled it to cancel the engagement of such Consultant if such engagement were still ongoing, the Board, by written resolution, may, to the fullest extent allowed by law, cancel and/or cause the forfeiture of any unvested and/or unexercised Option, unvested or unexercised SAR, or Restricted Stock awarded to such Eligible Employee or Consultant.

5. Qualified Performance-Based Incentives

(a) *Applicability*. This section will apply only to Covered Employees, or to those persons whom the Committee determines are reasonably likely to become Covered Employees in the period covered by an Incentive. The Committee may, in its discretion, select particular Covered Employees to receive Qualified Performance-Based Incentives. The Committee may, in its discretion, grant Incentives (other than Qualified Performance-Based Incentives) to Covered Employees that do not satisfy the requirements of this section.

(b) *Purpose*. As to any Covered Employee or person likely to become a Covered Employee during the period covered by an Incentive, the Committee shall have the ability to qualify any of the Incentives as "performance-based compensation" under Section 162(m) of the Code. If the Committee, in its discretion, decides to grant an Incentive as a Qualified Performance-Based Incentive, the provisions of this section will control over any contrary provision contained in the Plan. In the course of granting any Incentive, the Committee may specifically designate the Incentive as intended to qualify as a Qualified Performance-Based Incentive. However, no Incentive shall be considered to have failed to qualify as a Qualified Performance-Based Incentive solely because the Incentive is not expressly designated as a Qualified Performance-Based Incentive, if the Incentive otherwise satisfies the provisions of this section and the requirements of Section 162(m) of the Code and the regulations thereunder applicable to "performance-based compensation."

(c) *Authority*. All grants of Incentives intended to qualify as Qualified Performance-Based Incentives shall be made by the Committee or, if all of the members thereof do not qualify as "outside directors" within the meaning of applicable IRS regulations under Section 162 of the Code, by a subcommittee of the Committee consisting of such of the members of the Committee who do so qualify. Any action by such a subcommittee shall be considered the action of the Committee for purposes of the Plan. The Committee (or subcommittee, if necessary) shall also determine the terms applicable to Qualified Performance-Based Incentives.

(d) *Discretion of Committee*. Options may be granted as Qualified Performance-Based Incentives. The exercise price of any Option intended to qualify as a Qualified Performance-Based Incentive shall in no event be less that the Fair Market Value on the date of the grant of the Stock covered by the Option. With regard to other Incentives intended to qualify as Qualified Performance-Based Incentives, the Committee will have full discretion to select the length of any applicable Restriction Period or Performance Period. Additionally, the Committee shall have full discretion to establish the Performance Criteria, the kind and/or level of the applicable Performance Goal, and whether the Performance Goal is to apply to the Company, Affiliate or Division. Any Performance Goal or Goals applicable to Qualified Performance-Based Incentives shall be objective, shall be established not later than ninety (90) days after the beginning of any applicable Performance Period (or at such other date as may be required or permitted for "performance-based compensation" under Section 162(m) of the Code), and shall otherwise meet the requirements of Section 162(m) of the Code, including the requirement that the outcome of the Performance Goal or Goals be substantially uncertain (as defined in the regulations under Section 162(m) of the Code) at the time established.

(e) *Payment of Qualified Performance-Based Incentives*. A Covered Employee will be eligible to receive payment under a Qualified Performance-Based Incentive that is subject to achievement of a Performance Goal or Goals only if the applicable Performance Goal or Goals are achieved within the applicable Performance Period, as determined by the Committee. In determining the actual size of an individual Qualified Performance-Based Incentive, the Committee may reduce or eliminate the amount of the Qualified Performance-Based Incentive earned for the Performance Period, if, in its sole and absolute discretion, such reduction or elimination is appropriate.

(f) *Limitation of Adjustments for Certain Events*. No adjustment of any Qualified Performance-Based Incentive shall be made except on such basis, if any, as will not cause such Incentive to provide other than "performance-based compensation" within the meaning of Section 162(m) of the Code.

6. Shares Available for Incentives and Limits on Incentives

(a) *Maximum Shares*. Subject to adjustment as provided in this Section 6, there is hereby reserved for issuance under the Plan up to 1,200,000 shares of Stock of the Company.

(b) *Limit on an Individual's Incentives*. In any given year, no Eligible Employee or Consultant may receive Incentives covering more than 20% of the aggregate number of shares that may be issued pursuant to the Plan. Except as may otherwise be permitted by the Code, Incentive Options granted to an employee of the Company or its parent or subsidiary during one calendar year shall be limited as follows: at the time the Incentive Options are granted, the Fair Market Value of the Stock covered by Incentive Options first exercisable by such employee in any calendar year may not, in the aggregate, exceed $100,000. The maximum Qualified Performance-Based Incentive payment to any one Participant under the Plan for a Performance Period is 20% of the aggregate number of shares that may be issued pursuant to the Plan, or if the Qualified Performance-Based Incentive is paid in cash, that number of shares multiplied by the Fair Market Value of the Stock as of the date the Qualified Performance-Based Incentive is granted.

(c) *Source of Shares*. Shares under this Plan may be delivered by the Company from its authorized but unissued shares of Stock or from Stock held in the Company treasury. To the extent that shares of Stock subject to an outstanding award under the Plan are not issued by reason of forfeiture, termination, surrender, cancellation, or expiration while unexercised; by reason of the tendering or withholding of shares to pay all or a portion of the exercise price or to satisfy all or a portion of the tax withholding obligations relating to the award; by reason of being settled in cash in lieu of shares or settled in a manner that some or all of the shares covered by the award are not issued to the Participant; or being exchanged for a grant under the Plan that does not involve Stock, then such shares shall immediately again be available for issuance under the Plan, unless such availability would cause the Plan to fail to comply with Rule 16b-3 under Exchange Act, or any other applicable law or regulation.

(d) *Recapitalization Adjustment*. In the event of a reorganization, recapitalization, stock split, stock dividend, combination of shares, merger, consolidation, rights offering, or any other change in the corporate structure or shares of the Company, the Committee shall make appropriate adjustments in the number and kind of shares authorized by the Plan; in the number and kind of shares covered by Incentives granted; in the price of Options; and in the Fair Market Value of SARs. No adjustment under this section or any other part of this Plan shall be made if: (1) it would cause an Incentive granted under this Plan as a Qualified Performance-Based Incentive to fail under Code 162(m), (2) it would cause an Incentive Option granted under this Plan to fail to meet the criteria for an Incentive Option, or (3) it would violate any applicable law or regulation.

7. Effect of Employment Termination on Options and SARs

(a) As to a "Terminated Employee":

(i) Any unvested Options and unvested SARs held by such individual on the date of his or her Employment Termination shall lapse and be automatically cancelled and of no further force and effect as of midnight on the date of such individual's Employment Termination.

(ii) Any vested but unexercised Options held by such individual as of the date of his or her Employment Termination shall expire and be of no further force and effect unless either exercised or surrendered under a SAR within the earlier of: (a) 90 days after the date of such individual's Employment Termination, or (b) the expiration date of the Option. However, in the event that such an individual is subject to a Blackout Period during the entire 90 days after such individual's Employment Termination, then such individual shall have until 10 business days after the expiration of the Blackout Period applicable to him or her to exercise Options that were vested but unexercised as of his or her Termination Date, unless such Option expires by its own terms prior to the end of the Blackout Period.

(iii) Any vested but unexercised SARs held by such individual as of the date of his or her Employment Termination shall expire and be of no further force and effect unless either exercised within the earlier of: (a) 90 days after the date of such individual's Employment Termination, or (b) the expiration date of the SAR. However, in the event that such an individual is subject to a Blackout Period during the entire 90 days after such individual's Employment Termination, then such individual shall have until 10 business days after the expiration of the Blackout Period applicable to him or her to exercise SARs that were vested but unexercised as of his or her Termination Date, unless such SARs expire by their own terms prior to the end of the Blackout Period.

(b) In a situation in which an individual is terminated from a Related Entity for Cause, his or her unvested Options and SARs shall lapse and be automatically cancelled in accordance with subsection 4(b) above; however, if for any reason such individual's unvested Options and SARs have not either lapsed and been automatically cancelled under subsection 4(b) by midnight on the date that his or her employment is terminated by the Related Entity for Cause, then such individual's unvested Options and unvested SARs shall lapse, be cancelled, and/or expire at midnight on the date that he or she is terminated by the Related Entity for Cause.

(c) In a situation in which an individual is terminated by a Related Entity for Cause, his or her Options and SARs that are vested but unexercised as of the date that his or her employment is terminated for Cause shall be forfeited and automatically cancelled in accordance with subsection 4(b) above; however, if for any reason such individual's vested and unexercised Options and SARs have not either been forfeited and automatically cancelled under subsection 4(b) above or otherwise expired within seven (7) days following the date of his or her termination for Cause, then such individual's vested but unexercised Options and SARs shall lapse, be cancelled, and/or expire if they have not been exercised within such seven (7) day period.

8. Options

The Committee may grant options qualifying as Incentive Options under the Code, other statutory options under the Code, and Nonstatutory Options. However, in accordance with Code § 422(b), no one may be granted an Incentive Option under this Plan unless such person, as of the date of grant, is an employee of the Company or an employee of the Company's parent company or a Company subsidiary. All Options granted under this Plan shall be subject to the following terms and conditions and such other terms and conditions as the Committee may prescribe:

(a) *Option Price*. The option price per share with respect to each Option shall be determined by the Committee, but shall not be less than one hundred percent (100%) of the Fair Market Value of the Company's Stock on the date the Option is granted; provided, however, that in the case of an Incentive Option granted to an Eligible Employee who, immediately prior to such grant, owns (directly or indirectly) stock (either common or preferred) possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or a subsidiary of the Company, the option price shall not be less than one hundred ten percent (110%) of the Fair Market Value on the date of grant.

(b) *Vesting.* Options granted under this Plan shall vest in accordance with subsection 3(c) above unless the granting document for such Options specifies a different vesting schedule.

(c) *Expiration Date for Option*. The expiration date for each Option shall be fixed by the Committee in the granting document but shall not exceed ten (10) years. If an Incentive Option is granted to an Eligible Employee of the Company or its parent company or one of its affiliates who owns shares possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company as of the date the Incentive Option is granted, then the Incentive Option will expire five (5) years from the date it is granted, unless it is earlier terminated under one of the other provisions of this Plan.

(d) *Payment for Option Exercise*. At the time an Option is exercised, the holder must tender of the full purchase price for the applicable shares, which may be paid or satisfied by: (i) cash; (ii) check; (iii) 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 (iv) 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. No shares shall be issued until full payment for such shares has been made. A grantee of an Option shall have none of the rights of a shareholder until the shares are issued.

(e) *Exercise of Option*. An Option may be exercised only by giving written notice, specifying the number of shares of Stock to be purchased. Additional procedures 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. If an Option grantee is awarded the Option while he or she is employed by the Company or one of its Affiliates or joint ventures, then so long as such Option grantee remains employed by the Company or one of its Affiliates or joint ventures, the shares covered by an Option may be purchased in such installments and on such exercise dates as the Committee or its delegate may determine and as set forth in the document awarding the Option. In no event shall any Option be exercisable after its specified expiration period. If a Consultant is awarded an Option, the shares covered by such Option may be purchased in such installments and on such exercise dates and conditions as set forth in the document awarding the Option. A Participant, and those claiming through a Participant, may not exercise Options during a Blackout Period applicable to that Participant.

(f) *Handling of Options When Employment Ends.*

(i) A Terminated Employee's Options that are unvested on the date of his or her Employment Termination shall be handled in accordance with subsection 7(a)(i) above.

(ii) A Terminated Employee's Options that are vested but unexercised on the date of his or her Employment Termination shall be handled in accordance with subsection 7(a)(ii) above.

(iii) In a situation in which an employee of a Related Entity is terminated for Cause, subsection 4(b) above shall apply to such individual's: (x) unvested Options and (y) vested but unexercised Options. If, for any reason such individual's unvested Options have not either lapsed and been automatically cancelled under subsection 4(b) by midnight on the date that his or her employment is terminated by the Related Entity for Cause, then such person's unvested Options shall lapse, be cancelled, and/or expire in accordance with subsection 7(b) above. If, for any reason. within seven (7) days following the date of his or her termination for Cause, such individual's vested and unexercised Options have not been forfeited and/or automatically cancelled under subsection 4(b) above or otherwise expired, then such individual's vested but unexercised Options shall lapse, be cancelled, and/or expire if they have not been exercised within seven (7) days after the date such individual's employment is terminated by the Related Entity for Cause.

(g) *Divorce*. Incentive Options transferred incident to divorce will cease to be statutory stock options on transfer.

(h) *Cancellation of Options with No Value*. 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.

9. Stock Appreciation Rights ("SARs")

The Committee may, in its discretion, grant SARs to Eligible Employees and to Consultants. SARs may be granted either singly or in combination with an underlying Option granted hereunder. Such SARs shall be subject to the following terms and conditions and such other terms and conditions as the Committee may prescribe:

(a) *Vesting and Exercise Period of SAR*. If a SAR is granted with respect to an underlying Option, it may be granted at the time of the Option or at any time thereafter but prior to the expiration of the Option. In no event shall the exercise period for a SAR exceed the exercise period for its underlying Option, if any. If the Committee fails to set the vesting period in the granting document for a SAR, then the vesting period for such SAR shall be as stated in Subsection 3(c) above. Unless otherwise specified in the granting document for a SAR, the exercise period for the SAR shall be five (5) years from the date of vesting unless such exercise period is earlier terminated under subsections 4(b) or 9(d) of this Plan. If an Option is granted with respect to an underlying Option, then upon exercise of the Option the SAR will be cancelled.

(b) *Value of SAR*. If a SAR is granted with respect to an underlying Option, the grantee will be entitled to surrender the Option that is then exercisable and receive in exchange an amount equal to the excess of the Fair Market Value of the Stock on the date the election to surrender is received by the Company over the Option price multiplied by the number of shares covered by the Options that are surrendered. If a SAR is granted without an underlying Option, the grantee will receive upon exercise of the SAR an amount equal to the Fair Market Value of the Stock on the date the election to surrender such SAR is received by the Company over the Fair Market Value of the Stock on the date of grant multiplied by the number of shares covered by the SARs being exercised.

(c) *Payment of SAR*. When a SAR is exercised, payment for the SAR shall be in the form of shares of Stock, cash, or any combination of Stock and cash.

(d) *Handling of SAR When Employment Ends.*

(i) A Terminated Employee's SARs that are unvested on the date of his or her Employment Termination shall be handled in accordance with subsection 7(a)(i) above.

(ii) A Terminated Employee's SARs that are vested but unexercised on the date of his or her Employment Termination shall be handled in accordance with subsection 7(a)(iii) above.

(iii) In a situation in which an Eligible Employee is terminated for Cause, subsection 4(b) above shall apply to such individual's: (x) unvested SARs and (y) vested but unexercised SARs. If, for any reason, such individual's unvested SARs have not lapsed and been automatically cancelled under subsection 4(b) by midnight on the date that his or her employment is terminated by the Related Entity for Cause, then such individual's unvested SARs shall lapse, be cancelled, and/or expire in accordance with subsection 7(b) above. If, for any reason, within seven (7) days following the date of his or her termination for Cause, such individual's vested and unexercised SARs have not been forfeited and/or automatically cancelled under subsection 4(b) above or otherwise expired, then such individual's vested but unexercised SARs shall lapse, be cancelled, and/or expire if they have not been exercised within seven (7) days after the date such individual's employment is terminated by the Related Entity for Cause.

10. Restricted Stock

The Committee may award Restricted Stock to a grantee. All shares of Restricted Stock granted shall be subject to a Risk of Forfeiture as determined by the Committee, including but not limited to the following terms and conditions and such other terms and conditions as the Committee may prescribe:

(a) *Restriction Period.* Each grant of Restricted Stock made under this Plan shall specify a Restriction Period. If the grant fails to specify a Restriction Period, then the Restriction Period shall be as follows:

- 20% of the Restricted Stock awarded under the grant will be subject to a one-year Restriction Period ending on the first anniversary of the date of grant;
- 20% of the Restricted Stock awarded under the grant will be subject to a two-year Restriction Period ending on the second anniversary of the date of grant;
- 20% of the Restricted Stock awarded under the grant will be subject to a three-year Restriction Period ending on the third anniversary of the date of grant;

- 20% of the Restricted Stock awarded under the grant will be subject to a four-year Restriction Period ending on the fourth anniversary of the date of grant; and

- 20% of the Restricted Stock awarded under the grant will be subject to a five-year Restriction Period ending on the fifth anniversary of the date of grant.

(b) *Effect of Employment Termination on Restricted Stock*. If a grantee is awarded Restricted Stock while he or she is employed by one of the Related Entities, then, as a condition of the grant, the grantee must remain employed by one of the Related Entities during the applicable Restriction Period in order to retain the shares of Restricted Stock. If the grantee leaves the employment of one of the Related Entities prior to the end of the Restriction Period, the Restricted Shares still subject to a Restriction Period shall revert to the Company and any rights of the grantee in such Restricted Shares shall automatically terminate and such shares shall be returned immediately to the Company. This subsection shall apply without regard to whether the reason for termination of the grantee's employment is voluntary termination, involuntary termination, retirement, extended absence due to disability, or death. However, this subsection shall not apply if the grantee is terminated from one Related Entity and immediately transferred to another Related Entity. If a grantee of Restricted Stock is terminated for Cause, the Board shall have discretion to apply subsection 4(b) to such grantee's Restricted Stock. However, if the Board fails to apply 4(b), then the Restricted Stock of a grantee terminated for Cause shall revert to the Company under this subsection 10(b).

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

(d) *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.

(e) *Lapse of Restrictions*. 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 grantee shall then be entitled to have the legend removed from the certificates.

11. Acquisition and Change of Control Events

(a) *Definitions.*

"Acquisition Event" shall mean:

(i) Any merger or consolidation of the Company with or into another entity as a result of which the Company's Stock is converted into or exchanged for the right to receive cash, securities of the other entity, or other property; or

(ii) Any exchange of shares of the Company for cash, securities of another entity or other property pursuant to a statutory share exchange transaction.

"Change of Control Event" shall mean:

(i) 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

(ii) 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 (ii), 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% 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;

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

(iv) the complete liquidation of the Company.

(b) *Effect on Options.*

(i) *Acquisition Event*. Upon the occurrence of an Acquisition Event (regardless of whether such event also constitutes a Change in Control Event), or the execution by the Company of any agreement with respect to an Acquisition Event (regardless of whether such event will result in a Change in Control Event), the Board shall provide that all outstanding Options shall be assumed, or equivalent options shall be substituted, by the acquiring or succeeding Person (or an Affiliate thereof). However, if such Acquisition Event also constitutes a Change in Control Event, except to the extent specifically provided to the contrary in the instrument evidencing any Option or any other agreement between the Option holder and the Company, such assumed or substituted options shall be immediately exercisable in full upon the occurrence of such Acquisition Event. For purposes of this section, an Option shall be considered to be assumed if, following consummation of the Acquisition Event, the Option confers the right to purchase, for each share of Stock subject to the Option immediately prior to the consummation of the Acquisition Event, the consideration (whether cash, securities or other property) received as a result of the Acquisition Event by holders of Stock for each share of Stock held immediately prior to the consummation of the Acquisition 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 Acquisition Event is not solely Stock of the acquiring or succeeding Person (or an Affiliate thereof), the Company may, with the consent of the acquiring or succeeding Person, provide for the consideration to be received upon the exercise of Options to consist solely of Stock of the acquiring or succeeding Person (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 Acquisition Event. Notwithstanding the foregoing, if the acquiring or succeeding Person (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 Acquisition Event and will terminate immediately prior to the consummation of such Acquisition Event, except to the extent exercised by the Option holders before the consummation of such Acquisition Event. However, in the event of an Acquisition 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 Acquisition Event (the "Acquisition Price"), then the Board may instead provide that all outstanding Options shall terminate upon consummation of such Acquisition 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.

(ii) *Change in Control Event that is not an Acquisition Event*. Upon the occurrence of a Change in Control Event that does not also constitute an Acquisition Event, except to the extent specifically provided to the contrary in the instrument evidencing any Option or any other agreement between a Participant and the Company, all Options then outstanding shall automatically become immediately vested and exercisable in full.

(c) *Effect on Restricted Stock.*

(i) *Acquisition Event that is not a Change in Control Event*. Upon the occurrence of an Acquisition Event that is not a Change in Control Event, the repurchase and other rights of the Company under each outstanding grant of Restricted Stock shall inure to the benefit of the Company's successor and shall apply to the cash, securities or other property into which the Stock was converted or for which it was exchanged pursuant to such Acquisition Event in the same manner and to the same extent as such rights applied to the Stock subject to such Restricted Stock award.

(ii) *Change in Control Event*. Upon the occurrence of a Change in Control Event (regardless of whether such event also constitutes an Acquisition Event), except to the extent specifically provided to the contrary in the instrument evidencing any Restricted Stock award or any other agreement between a holder of a Restricted Stock award and the Company, all restrictions and conditions on all Restricted Stock awards then outstanding shall automatically be deemed terminated or satisfied.

(d) *Effect on Other Awards.*

(i) *Acquisition Event that is not a Change in Control Event*. In the documents granting such Incentive, the Board may specify the effect of an Acquisition Event that is not a Change in Control Event on any Incentive other than Options and Restricted Stock. If the Board does not specify the effect of any Acquisition Event on such Incentives, the Acquisition Event shall impact such Incentives in accordance with applicable law.

(ii) *Change in Control Event*. Upon the occurrence of a Change in Control Event (regardless of whether such event also constitutes an Acquisition Event), except to the extent specifically provided to the contrary in the instrument granting such Incentive or any other agreement between an Incentive holder and the Company, all Incentives within the scope of the foregoing 12(d)(i) shall become exercisable, realizable and/or vested in full, or shall be free of all conditions or restrictions, as applicable to each such Incentive. However, the immediately preceding sentence shall not apply to performance-based awards. Upon the occurrence of a Change in Control Event (regardless of whether such event also constitutes an Acquisition Event), all performance-based award shall be immediately payable based upon the extent, as determined by the Committee, to which the Performance Goals for the Performance Period then in progress have been met up through the date of the Change of Control Event or based on 100% of the value on the date of grant of the performance-based award, if such amount is higher.

12. Discontinuance or Amendment of the Plan

The Board may discontinue the Plan at any time and may from time to time amend or revise the terms of the Plan as permitted by applicable statutes, except that it may not revoke or alter, in a manner unfavorable to the grantees of any Incentives hereunder, any Incentives then outstanding, nor may the Board amend the Plan without shareholder approval where the absence of such approval would cause the Plan to fail to comply with the Exchange Act or any other applicable law or regulation. No Incentive shall be granted under the Plan after April 18, 2017, but Incentives granted prior to such date may extend beyond such date.

13. Nontransferability

Incentive Options granted under the Plan shall not be transferable except by will or the laws of descent and distribution. To the extent allowed by law, Nonstatutory Options may be transferable to certain family members or foundations for no value or other consideration. Additionally, other Incentives granted under the Plan may be transferable subject to the terms and conditions as may be established by the Committee in accordance with regulations promulgated under the Exchange Act and any other applicable law or regulation.

14. No Right of Employment

The Plan and the Incentives granted hereunder shall not confer upon any Eligible Employee the right to continued employment with the Company, its Affiliates, or its joint ventures, or affect in any way the right of such entities to terminate the employment of an Eligible Employee at any time and for any reason. Neither shall the Plan and the Incentives granted hereunder confer on a Consultant the right to continuation of his or her consulting agreement or a right to become an Eligible Employee.

15. Taxes

The Company shall be entitled, at the time the Company deems appropriate under the law then in effect, to withhold the amount of any tax attributed to any Incentive granted under the Plan.

16. 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.

17. "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.

18. 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.

19. 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.

20. 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 options and other Incentives otherwise than under the Plan, and such arrangements may be either applicable generally or only in specific cases.

21. 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.

22. 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.

23. Miscellaneous

The provisions of this Plan shall be severable, and the invalidity of any particular provision of the Plan shall not cause the Plan as a whole to be invalid. 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.

Adopted by the Board of Directors of Cumberland Pharmaceuticals Inc. this 4th day of November, 2010.

/s/ Jean W. Marstiller
Jean W. Marstiller
Senior Vice President and Corporate Secretary
Date Signed: November 4, 2010

Exhibit 31.1

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.

November 15, 2010

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

Exhibit 31.2

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.

November 15, 2010

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

Exhibit 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

In connection with the Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2010 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
November 15, 2010

/s/ David L. Lowrance
David L. Lowrance
Vice President and Chief Financial Officer
November 15, 2010