# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**WASHINGTON, DC 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, 2020**

**OR**

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

**For the transition period from to .**

**Commission file number: 001-33637**

# Cumberland Pharmaceuticals Inc.

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

| **Tennessee** | **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)** | **(Zip Code)** |

**(615) 255-0068**
**(Registrant's Telephone Number, Including Area Code)**

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files.) Yes ☒ No ☐

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

| | | | |
|---|---|---|---|
| Large accelerated filer | ☐ | Accelerated filer | ☐ |
| Non-accelerated filer | ☒ | Smaller reporting company | ☒ |
| Emerging growth company | ☐ | | |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

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

Securities registered pursuant to Section 12(b) of the Act:

| Class | Trading Symbol | Name of exchange on which registered | Outstanding at November 9, 2020 |
|---|---|---|---|
| Common stock, no par value | CPIX | NASDAQ Global Select Market | 15,036,923 |

**CUMBERLAND PHARMACEUTICALS INC.**
**INDEX**

## PART I – FINANCIAL INFORMATION

**Item 1. Financial Statements (Unaudited)**

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

| | September 30, 2020 | December 31, 2019 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 26,646,530 | $ 28,212,635 |
| Accounts receivable, net | 9,661,407 | 7,843,917 |
| Inventories | 10,080,394 | 8,871,254 |
| Current assets of discontinued operations | 727,670 | 2,477,813 |
| Prepaid and other current assets | 1,778,078 | 2,757,456 |
| Total current assets | 48,894,079 | 50,163,075 |
| Non-current inventories | 12,649,184 | 15,554,992 |
| Property and equipment, net | 602,911 | 747,796 |
| Intangible assets, net | 28,180,090 | 30,920,324 |
| Goodwill | 882,000 | 882,000 |
| Deferred tax assets, net | 21,802 | 21,802 |
| Operating lease right-of-use assets | 2,267,669 | 2,960,569 |
| Other assets | 2,511,894 | 3,298,725 |
| Total assets | $ 96,009,629 | $ 104,549,283 |
| **LIABILITIES AND EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 10,833,972 | $ 9,993,578 |
| Current liabilities of discontinued operations | — | 1,918,868 |
| Operating lease current liabilities | 991,969 | 920,431 |
| Current portion of revolving line of credit | 2,000,000 | — |
| Other current liabilities | 10,112,100 | 11,317,358 |
| Total current liabilities | 23,938,041 | 24,150,235 |
| Revolving line of credit | 15,000,000 | 18,500,000 |
| Operating lease noncurrent liabilities | 1,323,792 | 2,076,472 |
| Other long-term liabilities | 7,904,419 | 8,737,323 |
| Total liabilities | 48,166,252 | 53,464,030 |
| Commitments and contingencies | | |
| Equity: | | |
| Shareholders' equity: | | |
| Common stock—no par value; 100,000,000 shares authorized; 15,084,372 and 15,263,355 shares issued and outstanding as of September 30, 2020 and December 31, 2019, respectively | 49,176,040 | 49,914,478 |
| Retained earnings (deficit) | (1,247,237) | 1,208,395 |
| Total shareholders' equity | 47,928,803 | 51,122,873 |
| Noncontrolling interests | (85,426) | (37,620) |
| Total equity | 47,843,377 | 51,085,253 |
| Total liabilities and equity | $ 96,009,629 | $ 104,549,283 |

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Net revenues | $ 9,250,689 | $ 6,935,439 | $ 27,179,600 | $ 25,082,742 |
| Costs and expenses: | | | | |
| Cost of products sold | 2,142,839 | 1,580,650 | 6,387,002 | 5,031,732 |
| Selling and marketing | 3,587,842 | 3,812,467 | 11,160,924 | 11,231,778 |
| Research and development | 1,230,335 | 1,672,843 | 4,374,392 | 4,788,698 |
| General and administrative | 2,381,273 | 2,032,129 | 6,608,322 | 6,839,187 |
| Amortization | 1,117,086 | 1,033,786 | 3,284,610 | 3,085,139 |
| Total costs and expenses | 10,459,375 | 10,131,875 | 31,815,250 | 30,976,534 |
| Operating income (loss) | (1,208,686) | (3,196,436) | (4,635,650) | (5,893,792) |
| Interest income | 12,004 | (50,511) | 70,553 | 195,915 |
| Interest expense | (75,210) | (64,877) | (227,730) | (216,988) |
| Income (loss) from continuing operations before income taxes | (1,271,892) | (3,311,824) | (4,792,827) | (5,914,865) |
| Income tax (expense) benefit | (3,728) | (4,462) | (45,423) | 72,504 |
| Net income (loss) from continuing operations | (1,275,620) | (3,316,286) | (4,838,250) | (5,842,361) |
| Discontinued operations | 777,916 | 1,349,351 | 2,334,811 | 3,268,196 |
| Net income (loss) | (497,704) | (1,966,935) | (2,503,439) | (2,574,165) |
| Net (income) loss at subsidiary attributable to noncontrolling interests | 15,967 | 13,267 | 47,806 | (2,888) |
| Net income (loss) attributable to common shareholders | $ (481,737) | $ (1,953,668) | $ (2,455,633) | $ (2,577,053) |
| Earnings (loss) per share attributable to common shareholders | | | | |
| - Continuing operations - basic | $ (0.08) | $ (0.22) | $ (0.31) | $ (0.38) |
| - Discontinued operations - basic | 0.05 | 0.09 | 0.15 | 0.21 |
| | $ (0.03) | $ (0.13) | $ (0.16) | $ (0.17) |
| | | | | |
| - Continuing operations - diluted | $ (0.08) | $ (0.22) | $ (0.31) | $ (0.38) |
| - Discontinued operations - diluted | 0.05 | 0.09 | 0.15 | 0.21 |
| | $ (0.03) | $ (0.13) | $ (0.16) | $ (0.17) |
| Weighted-average shares outstanding | | | | |
| - basic | 15,134,583 | 15,368,027 | 15,206,179 | 15,454,159 |
| - diluted | 15,134,583 | 15,368,027 | 15,206,179 | 15,454,159 |

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, | |
|---|---|---|
| | 2020 | 2019 |
| Cash flows from operating activities: | | |
| Net income (loss) | $ (2,503,438) | $ (2,574,165) |
| Discontinued operations | 2,334,811 | 3,268,196 |
| Net income (loss) from continuing operations | (4,838,249) | (5,842,361) |
| Adjustments to reconcile net income (loss) from continuing operations to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization expense | 3,524,684 | 3,278,958 |
| Deferred tax expense | — | 43,605 |
| Share-based compensation | 805,338 | 1,107,817 |
| Decrease in non-cash contingent consideration | (806,390) | (681,577) |
| Noncash interest expense | 36,197 | 36,292 |
| Noncash investment gains | — | (34,303) |
| Net changes in assets and liabilities affecting operating activities: | | |
| Accounts receivable | (1,817,490) | 1,026,633 |
| Inventories | 1,696,668 | 1,332,140 |
| Other current assets and other assets | 1,962,024 | 195,529 |
| Accounts payable and other current liabilities | 3,417,856 | (539,525) |
| Other long-term liabilities | (1,585,584) | (207,648) |
| Net cash provided by (used in) operating activities from continuing operations | 2,395,054 | (284,440) |
| Discontinued operations | 2,166,086 | 2,483,796 |
| Net cash provided by operating activities | 4,561,140 | 2,199,356 |
| Cash flows from investing activities: | | |
| Additions to property and equipment | (95,189) | (166,407) |
| Purchases of marketable securities | — | (9,627,191) |
| Proceeds from sale of marketable securities | — | 15,686,334 |
| Proceeds from surrender of life insurance policies | 460,888 | — |
| Cash paid for acquisition | — | (5,000,000) |
| Additions to intangible assets | (1,807,467) | (498,003) |
| Net cash provided by (used in) investing activities | (1,441,768) | 394,733 |
| Cash flows from financing activities: | | |
| Borrowings on line of credit | 44,000,000 | 56,000,000 |
| Repayments on line of credit | (45,500,000) | (56,000,000) |
| Payments of deferred loan costs | — | (52,500) |
| Cash payment of contingent consideration | (834,014) | (908,347) |
| Repurchase of subsidiary shares from noncontrolling interest | (800,000) | — |
| Repurchase of common shares | (1,551,463) | (2,593,778) |
| Net cash used in financing activities | (4,685,477) | (3,554,625) |
| Net decrease in cash and cash equivalents | (1,566,105) | (960,536) |
| Cash and cash equivalents at beginning of period | $ 28,212,635 | $ 27,938,960 |
| Cash and cash equivalents at end of period | $ 26,646,530 | $ 26,978,424 |

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

| | Common stock | | Retained earnings | Noncontrolling interests | Total equity |
|---|---|---|---|---|---|
| | Shares | Amount | | | |
| Balance, December 31, 2018 | 15,481,497 | $ 51,098,613 | $ 4,746,154 | $ (274,266) | $ 55,570,501 |
| Share-based compensation | 187,486 | 364,434 | — | — | 364,434 |
| Repurchase of common shares | (121,466) | (703,790) | — | — | (703,790) |
| Net loss | — | — | (73,878) | 33,460 | (40,418) |
| Balance, March 31, 2019 | 15,547,517 | $ 50,759,257 | $ 4,672,276 | $ (240,806) | $ 55,190,727 |
| | | | | | |
| Balance, March 31, 2019 | 15,547,517 | $ 50,759,257 | $ 4,672,276 | $ (240,806) | $ 55,190,727 |
| Share-based compensation | 8,000 | 396,548 | — | — | 396,548 |
| Repurchase of subsidiary shares from noncontrolling interest | — | (685,805) | — | (114,195) | (800,000) |
| Repurchase of common shares | (84,447) | (531,746) | — | — | (531,746) |
| Net loss | — | — | (549,507) | (17,305) | (566,812) |
| Balance, June 30, 2019 | 15,471,070 | $ 49,938,254 | $ 4,122,769 | $ (372,306) | $ 53,688,717 |
| | | | | | |
| Balance, June 30, 2019 | 15,471,070 | $ 49,938,254 | $ 4,122,769 | $ (372,306) | $ 53,688,717 |
| Share-based compensation | 6,450 | 346,835 | — | — | 346,835 |
| Repurchase of subsidiary shares from noncontrolling interest | — | 640,407 | — | 359,593 | 1,000,000 |
| Repurchase of common shares | (246,242) | (1,361,689) | — | — | (1,361,689) |
| Net loss | — | — | (1,953,668) | (13,267) | (1,966,935) |
| Balance, September 30, 2019 | 15,231,278 | $ 49,563,807 | $ 2,169,101 | $ (25,980) | $ 51,706,928 |

| | Common stock | | Retained earnings (deficit) | Noncontrolling interests | Total equity |
|---|---|---|---|---|---|
| | Shares | Amount | | | |
| Balance, December 31, 2019 | 15,263,555 | $ 49,914,478 | $ 1,208,395 | $ (37,620) | $ 51,085,253 |
| Share-based compensation | 219,850 | 264,574 | — | — | 264,574 |
| Repurchase of common shares | (164,866) | (441,624) | — | — | (441,624) |
| Net loss | — | — | (1,055,620) | (9,525) | (1,065,145) |
| Balance, March 31, 2020 | 15,318,539 | $ 49,737,428 | $ 152,775 | $ (47,145) | $ 49,843,058 |
| | | | | | |
| Balance, March 31, 2020 | 15,318,539 | $ 49,737,428 | $ 152,775 | $ (47,145) | $ 49,843,058 |
| Share-based compensation | 4,200 | 278,349 | — | — | 278,349 |
| Repurchase of common shares | (141,463) | (769,648) | — | — | (769,648) |
| Net loss | — | — | (918,275) | (22,314) | (940,589) |
| Balance, June 30, 2020 | 15,181,276 | $ 49,246,129 | $ (765,500) | $ (69,459) | $ 48,411,170 |
| | | | | | |
| Balance, June 30, 2020 | 15,181,276 | $ 49,246,129 | $ (765,500) | $ (69,459) | $ 48,411,170 |
| Share-based compensation | 4,450 | 262,415 | — | — | 262,415 |
| Repurchase of common shares | (101,354) | (332,504) | — | — | (332,504) |
| Net loss | — | — | (481,737) | (15,967) | (497,704) |
| Balance, September 30, 2020 | 15,084,372 | $ 49,176,040 | $ (1,247,237) | $ (85,426) | $ 47,843,377 |

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

**CUMBERLAND PHARMACEUTICALS INC. AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements**
**(Unaudited)**

## (1) ORGANIZATION AND BASIS OF PRESENTATION

Cumberland Pharmaceuticals Inc. (“Cumberland,” the “Company,” or as used in the context of “we,” “us,” or “our”) is a specialty pharmaceutical company focused on the acquisition, development and commercialization of branded prescription products. The Company's primary target markets are hospital acute care and gastroenterology. These medical specialties are characterized by relatively concentrated prescriber bases that the Company believes can be penetrated effectively by small, targeted sales forces. Cumberland is dedicated to providing innovative products that improve quality of care for patients and address unmet or poorly met medical needs.

Cumberland focuses its resources on maximizing the commercial potential of its products, as well as developing new product candidates, and has both internal development and commercial capabilities. The Company’s products are manufactured by third parties, which are overseen by Cumberland’s quality control and manufacturing professionals. The Company works closely with its third-party distribution partners to make its products available in the United States.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements of the Company have been prepared on a basis consistent with the December 31, 2019 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 unaudited condensed consolidated financial statements have been prepared in accordance with the regulations of the Securities and Exchange Commission (the “SEC”), and certain information and disclosures have been condensed or omitted as permitted by the SEC for interim period presentation. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes included in our Annual Report on Form 10-K for the year ended December 31, 2019 (the “2019 Annual Report on Form 10-K”). The results of operations for the three and nine months ended September 30, 2020 are not necessarily indicative of the results to be expected for the entire fiscal year or any future period.

**Discontinued Operations**

As discussed further in Note 10, during May 2019, Cumberland entered into a Dissolution Agreement ("Dissolution Agreement") with Clinigen Healthcare Limited ("Clinigen") in which the Company returned the exclusive rights to commercialize Ethyol® and Totect® in the United States to Clinigen. Under the terms of the Dissolution Agreement, Cumberland is no longer involved directly or indirectly with the distribution, marketing and promotion of either Ethyol or Totect or any competing products following December 31, 2019. The Company's exit from the products meets the accounting criteria to be reported as discontinued operations and the discontinued operating results have been reclassified in the financial statements and footnotes for all periods presented to reflect the discontinued status of these products. Refer to Note 10, for additional information.

**Reclassification of prior period amounts**

The Company has made certain reclassifications to prior period amounts to conform to the current-year presentation of the reporting of research and development expense and general and administrative expense on the condensed consolidated statements of operations. Certain costs and expenses related to research and development were previously reported as general and administrative expenses on the condensed consolidated statements of operations. These reclassifications have no effect on the reported operating loss or equity for the 2019 periods presented.

**COVID-19 Pandemic**

In March 2020, the U.S. declared a health care emergency following the outbreak of the (SARS-CoV-2), a novel strain of coronavirus that causes COVID-19, a respiratory illness.

Cumberland has remained open for business, as the Company is considered to be essential by the United States Department of Homeland Security. The Company has implemented measures to address the impact of the novel coronavirus on the business and taken appropriate action to protect the employees, secure the supply chain, and support the patients who can benefit from its medicines. All of the Company's employees have been given the opportunity to work remotely, and those that wish to work from Cumberland's office and laboratories are encouraged to practice the behaviors outlined by the Centers for Disease Control.

Cumberland's sales organization has continued to interact with medical professionals, providing information and product samples as requested. However, much of their contact has shifted from in person to telephonic and electronic communications. Travel across the organization and attendance at medical meetings have largely been discontinued. Cumberland has faced the same headwinds affecting other companies that rely on hospital admissions and patient visits to drive revenue. During this

pandemic, less patients sought care, some patients postponed elective surgeries and Cumberland's access to medical facilities was substantially limited.

Cumberland relies on third-party organizations around the world to supply components, manufacture and distribute its products. The Company is aware that it may experience revenue loss, supply interruptions, time delays and incur unplanned expenses as a result of the impact of the ongoing COVID-19 pandemic. The Company continues to monitor the COVID-19 pandemic situation both in the U.S. and internationally in order to maintain the employees' safety and well-being, while also keeping its business operating. Given the uncertainty, magnitude and impact of such changes, the Company is unable to quantify the impact on the future results as of the date of this filing.

***Recent Accounting Guidance***

*Recent Adopted Accounting Pronouncement*

In November 2018, the FASB issued ASU No. 2018-18, "Collaboration Arrangements: Clarifying the Interaction between Topic 808 and Topic 606" (ASU 2018-18). The issuance of ASU 2014-09 raised questions about the interaction between the guidance on collaborative arrangements and revenue recognition. ASU 2018-18 addresses this uncertainty by (1) clarifying that certain transactions between collaborative arrangement participants should be accounted for as revenue under ASU 2014-09 when the collaboration arrangement participant is a customer, (2) adding unit of account guidance to assess whether the collaboration arrangement or a part of the arrangement is with a customer and (3) precluding a company from presenting transactions with collaboration arrangement participants that are not directly related to sales to third parties together with revenue from contracts with customers. Cumberland adopted the standard effective January 1, 2020 with no impact on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, "Simplifying the Test for Goodwill Impairment" (ASU 2017-04). The guidance removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. As a result of the revised guidance, a goodwill impairment will be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The new standard was adopted by Cumberland effective January 1, 2020 and was applied prospectively with no impact on the Company's consolidated financial statements.

*Recent Accounting Pronouncements - Not Yet Adopted*

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments-Credit Losses," which changes the impairment model for most financial assets and certain other instruments. For trade and other receivables, held-to-maturity debt securities, loans and other instruments, companies will be required to use a new forward-looking "expected loss" model that generally will result in the earlier recognition of allowances for losses. For available-for-sale debt securities with unrealized losses, companies will measure credit losses in a manner similar to what they do today, except that the losses will be recognized as allowances rather than as reductions in the amortized cost of the securities. Companies will have to disclose additional information, including information they use to track credit quality by year of origination for most financing receivables. Companies will apply the ASU's provisions as a cumulative-effect adjustment, if any, to retained earnings as of the beginning of the first reporting period in which the guidance is adopted.

Related to ASU No. 2016-13 discussed above, in May 2019, the FASB issued ASU 2019-05, "Financial Instruments-Credit Losses (Topic 326): Targeted Transition Relief" which provides transition relief for ASU 2016-13 by providing entities with an alternative to irrevocably electing the fair value option for eligible financial assets measured at amortized cost upon adoption of the new credit losses standard. Certain eligibility requirements must be met and the election must be applied on an instrument-by-instrument basis. The election is not available for either available-for-sale or held-to-maturity debt securities. The Company will adopt both ASU 2016-13 and ASU 2019-05 on January 1, 2023. The adoption of ASU 2016-13 and ASU 2019-05 are not expected to have a material impact on the Company's consolidated financial statements.

***Accounting Policies:***

*Use of Estimates*

The preparation of the condensed consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management of the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates under different assumptions and conditions. The Company's most significant estimates include: (1) its allowances for chargebacks and accruals for rebates and product returns (2) the allowances for obsolescent or unmarketable inventory (3) assumptions used in estimating acquisition date fair value of assets acquired in business combinations and (4) valuation of contingent consideration liability associated with business combinations.

*Operating Segments*

The Company has one operating segment which is specialty pharmaceutical products. Management has chosen to organize the Company based on the type of products sold. Operating segments are identified as components of an enterprise about which separate discrete financial information is evaluated by the chief operating decision maker, or decision-making group, in making decisions regarding resource allocation and assessing performance. The Company, which uses consolidated financial information in determining how to allocate resources and assess performance, has concluded that our specialty pharmaceutical products compete in similar economic markets and similar circumstances. Substantially all of the Company's assets are located in the United States and total revenues are primarily attributable to U.S. customers.

**(2) INVESTMENTS IN CASH EQUIVALENTS AND MARKETABLE SECURITIES**

The Company invests in marketable securities in order to maximize its return on cash. Marketable securities consist of short-term cash investments, U.S. Treasury notes and bonds, corporate bonds and commercial paper. At the time of purchase, the Company classifies marketable securities as either trading securities or available-for-sale securities, depending on the intent at that time. As of September 30, 2020 and December 31, 2019, marketable securities were comprised solely of trading securities. Trading securities are carried at fair value with unrealized gains and losses recognized as a component of interest income in the consolidated statements of operations. As of September 30, 2020 and December 31, 2019, all trading securities were investments with original maturities of less than ninety days and as a result, were classified as cash equivalents.

The Company's fair value measurements follow the appropriate rules as well as the fair value hierarchy that prioritizes the information used to develop the measurements. It applies whenever other guidance requires (or permits) assets or liabilities to be measured at fair value and gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

A summary of the fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels is described below:

Level 1 - Quoted prices for identical instruments in active markets.

Level 2 - Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 - Significant inputs to the valuation model are unobservable.

The Company's fair values of marketable securities are determined based on valuations provided by a third-party pricing service, as derived from such service's pricing models, and are considered either Level 1 or Level 2 measurements, depending on the nature of the investment. The Company has no marketable securities in which the fair value is determined based on Level 3 measurements. The level of management judgment required in evaluating fair value for Level 1 investments is minimal. Similarly, there is little subjectivity or judgment required for Level 2 investments valued using valuation models that are standard across the industry and whose parameter inputs are quoted in active markets. Inputs to the models may include, but are not limited to, reported trades, executable bid and ask prices, broker/dealer quotations, prices or yields of securities with similar characteristics, benchmark curves or information pertaining to the issuer, as well as industry and economic events. Based on the information available, the Company believes that the valuations provided by the third-party pricing service, as derived from such service's pricing models, are representative of prices that would be received to sell the assets at the measurement date (exit prices). There were no transfers of assets between levels within the fair value hierarchy.

The following table summarizes the fair value of our marketable securities, by level within the fair value hierarchy, as of each period end:

| | September 30, 2020 | | | December 31, 2019 | | |
|---|---|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Total** | **Level 1** | **Level 2** | **Total** |
| Commercial paper | — | — | — | — | $ 2,119,607 | $ 2,119,607 |
| Total fair value of marketable securities | — | — | — | — | $ 2,119,607 | $ 2,119,607 |

**(3) EARNINGS (LOSS) PER SHARE**

The following table reconciles the numerator and denominator used to calculate diluted earnings (loss) per share for the three and nine months ended September 30, 2020 and 2019:

| | Three months ended September 30, | |
|---|---|---|
| | **2020** | **2019** |
| Numerator: | | |
| Net income (loss) from continuing operations | $ (1,275,620) | $ (3,316,286) |
| Discontinued operations | 777,916 | 1,349,351 |
| Net (income) loss at subsidiary attributable to noncontrolling interest | 15,967 | 13,267 |
| Net income (loss) attributable to common shareholders | $ (481,737) | $ (1,953,668) |
| Denominator: | | |
| Weighted-average shares outstanding – basic | 15,134,583 | 15,368,027 |
| Dilutive effect of other securities | — | — |
| Weighted-average shares outstanding – diluted | 15,134,583 | 15,368,027 |

| | Nine months ended September 30, | |
|---|---|---|
| | **2020** | **2019** |
| Numerator: | | |
| Net income (loss) from continuing operations | $ (4,838,250) | $ (5,842,361) |
| Discontinued operations | 2,334,811 | 3,268,196 |
| Net income (loss) at subsidiary attributable to noncontrolling interest | 47,806 | (2,888) |
| Net income (loss) attributable to common shareholders | $ (2,455,633) | $ (2,577,053) |
| Denominator: | | |
| Weighted-average shares outstanding – basic | 15,206,179 | 15,454,159 |
| Dilutive effect of other securities | — | — |
| Weighted-average shares outstanding – diluted | 15,206,179 | 15,454,159 |

As of September 30, 2020 and 2019, restricted stock awards and options to purchase 197,210 and 3,600 shares of common stock, respectively, were outstanding but were not included in the computation of diluted earnings per share because the effect would be antidilutive.

**(4) REVENUES**

*Product Revenues*

The Company accounts for revenues from contracts with customers under ASC 606, which became effective January 1, 2018. As part of the adoption of ASC 606, the Company applied the new standard on a modified retrospective basis analyzing open contracts as of January 1, 2018.

The Company's net revenues consisted of the following for the three and nine months ended September 30, 2020 and 2019:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Products: | | | | |
| Acetadote | $ 218,462 | $ 777,185 | $ 1,527,173 | $ 2,608,160 |
| Omeclamox-Pak | 516,066 | 116,063 | 640,435 | 794,205 |
| Kristalose | 3,615,557 | 2,924,237 | 10,387,046 | 9,720,434 |
| Vaprisol | 406,162 | 224,940 | 790,817 | 724,143 |
| Caldolor | 1,416,146 | 1,170,567 | 3,677,434 | 3,543,166 |
| Vibativ | 2,813,249 | 1,451,595 | 8,551,125 | 6,156,653 |
| Other revenue | 265,047 | 270,852 | 1,605,570 | 1,535,981 |
| Total net revenues | $ 9,250,689 | $ 6,935,439 | $ 27,179,600 | $ 25,082,742 |

*Other Revenues*

The Company has agreements with international partners for commercialization of the Company's products with associated payments included in other revenues. Those agreements provide that each of the partners are responsible for seeking regulatory approvals for the product, and following approval, each partner will be responsible for the ongoing distribution and sales in the respective international territories. The Company provides a dossier for product registration and maintains responsibility for the relevant intellectual property. Cumberland is typically entitled to receive a non-refundable, up-front payment at the time each agreement is executed as consideration for the product dossier and for the rights to the distinct intellectual property rights in the respective international territory. These agreements also typically provide for additional payments upon a partner's achievement of a defined regulatory approval and sales milestones. The Company may also be entitled to receive royalties on future sales of the products and a transfer price on supplies. The contractual payments associated with the partner's achievement of regulatory approvals, sales milestones and royalties on future sales are recognized as revenue upon occurrence, or at such time that the Company has a high degree of confidence that the revenue would not be reversed in a subsequent period.

Other revenues also include funding from federal grant programs including those secured by CET through the Small Business Administration as well as lease income generated by CET's Life Sciences Center. The Life Sciences Center is a research center that provides scientists with access to flexible lab space and other resources to develop biomedical products. Grant revenue from these programs totaled approximately $0.1 million and $0.2 million for the three months ended September 30, 2020 and 2019, and $0.4 million and $0.9 million for the nine months ended September 30, 2020 and 2019, respectively.

**(5) INVENTORIES**

The Company works closely with third parties to manufacture and package finished goods for sale. Based on the arrangements with the manufacturer or packager, the Company will either take title to the finished goods at the time of shipment or at the time of arrival at the Company's warehouses. The Company then holds such goods in inventory until distribution and sale. These finished goods inventories are stated at the lower of cost or net realizable value with cost determined using the first-in, first-out method.

The Company evaluates inventory for potential losses due to excess, obsolete or slow-moving goods by comparing sales history and projections to the inventory on hand. When evidence indicates that the carrying value may not be recoverable, a charge is taken to reduce the inventory to its current net realizable value. At September 30, 2020 and December 31, 2019, there were no cumulative obsolescence and discontinuance losses necessary.

The Company is responsible for the purchase of the active pharmaceutical ingredient ("API") for Kristalose and maintains the inventory at multiple locations. As that API is consumed in production, the value of the API is transferred from raw materials to

finished goods inventory. Cumberland also maintains API for its Vaprisol brand which is classified as raw materials inventory. The consigned inventory represents Authorized Generic product which is shipped to the Company's distribution partner and stored until sale.

As part of the Vibativ acquisition, Cumberland acquired API and work in process inventories that are classified as non-current inventories. The Company also has obtained $0.4 million in non-current inventory for API related to its ifetroban clinical initiatives.

At September 30, 2020 and December 31, 2019, total non-current inventory, including Vibativ and ifetroban, was $12.6 million and $15.6 million, respectively. The Company had $2.7 million of Vibativ finished goods included in non-current inventory at September 30, 2020 and did not have any finished goods included in the non-current inventories at December 31, 2019.

The Company's net inventories consisted of the following:

| | September 30, 2020 | December 31, 2019 |
|---|---|---|
| Raw materials and work in process | $ 17,064,269 | $ 19,345,723 |
| Consigned inventory | 250,615 | 416,468 |
| Finished goods | 5,414,694 | 4,664,055 |
| Total inventories | 22,729,578 | 24,426,246 |
| less non-current inventories | (12,649,184) | (15,554,992) |
| Total inventories classified as current | $ 10,080,394 | $ 8,871,254 |

**(6) LEASES**

In March 2016, the FASB issued ASU 2016-02. ASU 2016-02's core principle is to increase transparency and comparability among organizations by recognizing lease assets and liabilities on the balance sheet and disclosing key information. The primary effect of adopting ASU 2016-02 to the Company was to record right-of-use assets and obligations for the leases classified as operating leases.

Cumberland's significant operating leases include the lease of approximately 25,500 square feet of office space in Nashville, Tennessee for its corporate headquarters. This lease currently expires in October 2022. The operating leases also include the lease of approximately 14,200 square feet of wet laboratory and office space in Nashville, Tennessee by CET, our majority-owned subsidiary, where it operates the CET Life Sciences Center. This lease currently expires in April 2023.

Operating lease liabilities are recorded as the present value of remaining lease payments not yet paid for the lease term discounted using the incremental borrowing rate associated with each lease. Operating lease right-of-use assets represent operating lease liabilities adjusted for lease incentives and initial direct costs. As Cumberland's leases do not contain implicit borrowing rates, the incremental borrowing rates were calculated based on information available at January 1, 2019. Incremental borrowing rates reflect the Company's estimated interest rates for collateralized borrowings over similar lease terms. The weighted-average incremental borrowing rate used to discount the present value of the remaining lease payments is 7.42%. The weighted-average remaining lease term at September 30, 2020 is 2.2 years.

*Lease Position*

At September 30, 2020 and December 31, 2019 , the Company's lease assets and liabilities were as follows:

| Right-of-Use Assets | September 30, 2020 | December 31, 2019 |
|---|---|---|
| Operating lease right-of-use assets | $ 2,267,669 | $ 2,960,569 |

| Lease Liabilities | September 30, 2020 | December 31, 2019 |
|---|---|---|
| Operating lease current liabilities | $ 991,969 | $ 920,431 |
| Operating lease noncurrent liabilities | 1,323,792 | 2,076,472 |
| Total | $ 2,315,761 | $ 2,996,903 |

| Maturity of Leases Liabilities at September 30, 2020 | Operating Leases |
|---|---|
| 2020 | $ 288,781 |
| 2021 | 1,144,889 |
| 2022 | 1,019,313 |
| 2023 | 92,478 |
| After 2023 | — |
| Total lease payments | 2,545,461 |
| Less: Interest | (229,700) |
| Present value of lease liabilities | $ 2,315,761 |

**(7) SHAREHOLDERS' EQUITY AND DEBT**

*Share repurchases*

Cumberland currently has a share repurchase program to repurchase up to $10 million of its common stock pursuant to Rule 10b-18 of the Securities Exchange Act of 1934. In January 2019, the Company's Board of Directors established the current $10 million repurchase program to replace the prior authorizations. During the nine months ended September 30, 2020 and September 30, 2019, the Company repurchased 407,683 shares and 452,155, respectively, of common stock for approximately $1.5 million and $2.6 million, respectively.

*Share purchases and sales*

During the Company's March 2020 trading window, several members of Cumberland's Board of Directors entered into share purchase agreements of the Company's stock pursuant to Rule 10b-18 of the Securities Exchange Act of 1934. These purchases are designed to increase ownership in the Company by the members of the Board. During the nine months ended September 30, 2020, a total of 10,080 shares have been purchased.

*Share Sale*

In November 2017, Cumberland filed a Shelf Registration on Form S-3 with the SEC associated with the sale of up to $100 million in corporate securities. The Shelf Registration was declared effective in January 2018 including an At-The-Market ("ATM") feature enabling the Company to sell shares at market prices. The Company did not issue any shares under the ATM during the nine months ended September 30, 2020 or September 30, 2019.

*Restricted Share Grants*

During the nine months ended September 30, 2020, and September 30, 2019, the Company issued 230,491 shares and 225,869 shares of restricted stock to employees and directors, respectively. Restricted stock issued to employees generally cliff-vests on the fourth anniversary of the date of grant and for directors on the one-year anniversary of the date of grant. Stock compensation expense is presented as a component of general and administrative expense in the condensed consolidated statements of operations.

*Cumberland Emerging Technologies*

In April 2019, Cumberland Emerging Technologies ("CET"), our majority-owned subsidiary, entered into an agreement whereby Hongkong WinHealth Pharma Group Ltd. ("WinHealth") made a $1 million investment in CET through the purchase of shares of its common stock. As part of the agreement, WinHealth obtained the rights to name an individual for appointment to the CET Board of Directors as well as the first opportunity to license CET products for the Chinese market. In connection with WinHealth's investment in CET, during 2019, Cumberland also made an additional $1 million investment in CET. Cumberland purchased additional CET common shares through contribution of $0.3 million in cash and a conversion of $0.7 million in intercompany loans payable. Upon completion of the additional investment by WinHealth and Cumberland, Gloria Pharmaceuticals returned its shares in CET in exchange for $0.8 million that was funded during 2020.

*Debt Agreement*

On October 7, 2020, the Company entered into a Third Amendment to the Revolving Credit Note and Fourth Amendment ("Fourth Amendment") to the Revolving Credit Loan Agreement with Pinnacle Bank (the "Pinnacle Agreement"). The original Pinnacle Agreement was dated July 2017. The Fourth Amendment provides for a principal available for borrowing of up to $15 million and Cumberland has the ability to request an increase of up to an additional $5 million, upon the satisfaction of certain conditions and approval by Pinnacle Bank. If fully expanded, the Fourth Amendment would provide a maximum principal available for borrowing of up to $20 million, which was also the maximum aggregate principal available for

borrowing under the previously amended Pinnacle Agreement. The Fourth Amendment extends the maturity date of the Pinnacle Agreement through October 1, 2022.

On May 10, 2019, the Company entered into a third amendment ("Third Amendment") to the Pinnacle Agreement. The Third Amendment extended the term of the Pinnacle Agreement through July 31, 2021 as well as modified certain definitions and terms of the existing financial covenants, including the definition of the Funded Debt Ratio and the compliance target of the Tangible Capital Ratio. Both Third Amendment modifications were related to the Vibativ transaction. Under the Pinnacle Agreement, Cumberland was initially subject to one financial covenant, the maintenance of a Funded Debt Ratio, as such term is defined in the agreement and determined on a quarterly basis. On August 14, 2018, the Company amended the Pinnacle Agreement ("First Amendment") to replace the single financial covenant with the maintenance of either the Funded Debt Ratio or a Tangible Capital Ratio, as defined in the First Amendment. The Company was in compliance with the Tangible Capital Ratio financial covenant as of September 30, 2020.

The interest rate on the Pinnacle Agreement is based on LIBOR plus an interest rate spread. The pricing under the Fourth Amendment provides for an interest rate spread of 1.75% to 2.75% above LIBOR with a minimum LIBOR of 0.90%. The applicable interest rate under the Pinnacle Agreement was 2.90% at September 30, 2020, prior to entering into the Fourth Amendment. In addition, a fee of 0.25% per year is charged on the unused line of credit. Interest and the unused line fee are payable quarterly. Borrowings under the line of credit are collateralized by substantially all of our assets. As of September 30, 2020 and December 31, 2019, the Company had $17.0 million and $18.5 million in borrowings outstanding under our revolving credit facility, respectively. Of the $17.0 million in borrowings outstanding at September 30, 2020, $2.0 million is classified as current based on the terms of the Fourth Amendment.

*Paycheck Protection Program Loan*

On April 20, 2020, Cumberland received the funding of a loan from Pinnacle Bank in the aggregate amount of $2,187,140 pursuant to the Paycheck Protection Program (the “PPP”) under the Federal Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), which was enacted March 27, 2020.

The PPP is administered by the U.S. Small Business Administration ("SBA"). The loan matures April 14, 2022, and bears interest at a rate of 1.0% per year, payable monthly commencing during November 2020. The loan may be prepaid at any time prior to maturity with no prepayment penalties. Funds from the loan are to be used to maintain payroll, continue group health care benefits and pay for rent and utilities.

Under the terms of the PPP, certain amounts of the loan may be forgiven if they are used for qualifying expenses as described in the CARES Act, including qualifying payroll costs, covered rent payments, and covered utilities. From the date of funding the Company has used the loan amount for such qualifying expenses. Cumberland has elected to account for the proceeds of the loan as a government grant under *International Accounting Standard 20 ("IAS 20"), Accounting for Government Grants and Disclosure of Government Assistance.* The permitted analogous use of IAS 20 outlines a model for the accounting for government assistance, including forgivable loans. As result, the Company has recorded the $2,187,140 as a deferred income liability, which is included as a component of other current liabilities on the condensed consolidated balance sheet. The Company intends to apply IAS 20 to the PPP loan forgiveness and has presented the amounts expected to be forgiven as deferred income. The Company will account for the anticipated forgiveness of the PPP loan under IAS 20 when the Company believes that the forgiveness is reasonably assured.

Cumberland applied for this loan after carefully considering, with its bank, the eligibility criteria to participate in this program, and determining that Cumberland met these criteria. The Company evaluated and provided information on our payroll and other qualifying expenses to determine the amount of PPP funds to apply for.

Cumberland has not laid off or furloughed any employees as a result of the COVID-19 pandemic and, based on assistance from the PPP loan, the Company currently does not foresee doing so. In October 2020, the Company submitted a request for forgiveness of the PPP loan. The request was approved by the lender, Pinnacle Bank, who then submitted it to SBA for the SBA's review and approval.

*Joint Venture Agreement*

In August 2020, Cumberland entered into an agreement with WinHealth Investment (Singapore) Ltd creating *WHC Biopharmaceuticals, Pte. Ltd*. The joint venture, as a limited liability company, will focus on acquiring, developing, registering, and commercializing development stage and commercial stage biopharmaceuticals for China, Hong Kong and other Asian markets. The agreement provides for initial investment from WinHealth in the form of a $0.2 million equity contribution and an initial investment from Cumberland in the form of $0.2 million convertible note. The joint venture will seek additional future

capital from additional investors and has entered into exclusive option agreements to license intellectual property from both Cumberland Pharmaceuticals Inc. and Cumberland Emerging Technologies.

**(8) INCOME TAXES**

As of September 30, 2020, the Company has approximately $56.3 million in federal net operating loss carryforwards including approximately $44.1 million of net operating loss carryforwards resulting from the exercise of nonqualified stock options. These have historically been used to significantly offset income tax obligations. The Company expects it will continue to pay minimal income taxes during 2020 and beyond, through the continued utilization of these net operating loss carryforwards, on any taxable income generated from our operations. The Company does not allocate any portion of its income tax expense (benefit) to discontinued operations.

**(9) COLLABORATIVE AGREEMENTS**

Cumberland is a party to several collaborative arrangements with research institutions to identify and pursue promising pharmaceutical product candidates. The funding for these programs is primarily provided through Federal Small Business Administration (SBIR/STTR) and other grant awards. The Company has determined that these collaborative agreements, with the exception of the collaborative payment discussed in Note 10 do not meet the criteria for accounting under ASC Topic 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. Expenses incurred under these collaborative agreements are included in research and development expenses and funding received from grants are recorded as net revenues in the condensed consolidated statements of operations.

**(10) ADDITIONS AND RETURN OF PRODUCT RIGHTS**

*Vibativ*

During November 2018, the Company closed on an agreement with Theravance Biopharma ("Theravance") to acquire the global responsibility for Vibativ including the marketing, distribution, manufacturing and regulatory activities associated with the brand. Vibativ is a patented, Food and Drug Administration ("FDA") approved injectable anti-infective for the treatment of certain serious bacterial infections including hospital-acquired and ventilator-associated bacterial pneumonia and complicated skin and skin structure infections. It addresses a range of Gram-positive bacterial pathogens, including those that are considered difficult-to-treat and multidrug-resistant. Cumberland acquired Vibativ to further add to its product offerings, increase its net revenue and positively contribute to the Company's operating results. The Company expects to deduct the goodwill acquired in the acquisition for tax purposes.

Cumberland has accounted for the transaction as a business combination in accordance with ASC 805 and the product sales are included in the results of operations subsequent to the acquisition date. The Company made an upfront payment of $20.0 million at the closing of the transaction and a $5.0 million milestone payment in early April 2019. In addition, Cumberland has agreed to pay a royalty of up to 20% on future net sales of the product. The future royalty payments are required to be recognized at their acquisition-date fair value as part of the contingent consideration transferred in the business combination.

The following table summarizes the initial payments and consideration for the business combination:

| | | |
|---|---|---|
| Consideration: | | |
| Cash paid at closing | $ | 20,000,000 |
| Cash payment during 2019 | | 5,000,000 |
| Fair value of contingent consideration - net sales royalty | | 9,182,000 |
| Total consideration | $ | 34,182,000 |

The following table summarizes the final allocation of the fair values of the assets acquired as part of the acquisition of Vibativ:

| | | |
|---|---|---|
| Finished goods inventory | $ | 6,624,000 |
| Work in process - unlabeled vials | | 3,970,000 |
| Work in process - validation vials | | 1,827,000 |
| Raw materials | | 9,129,000 |
| Total inventory | $ | 21,550,000 |

| | | |
|---|---|---|
| Intellectual property amortizable intangible assets | | 11,750,000 |
| Goodwill | | 882,000 |
| Total intangibles and goodwill | | 12,632,000 |
| Total assets acquired | $ | 34,182,000 |

The contingent consideration liability represents the future net sales royalty payments discussed above. Cumberland prepared the valuations of the contingent consideration liability and the intangible assets utilizing significant unobservable inputs. As a result, the valuations are classified as Level 3 fair value measurements.

The following table presents the changes in the fair value of the contingent consideration liability that is remeasured on a recurring basis. The contingent consideration earned and accrued in operating expenses is paid to the seller quarterly.

| | | |
|---|---|---|
| Balance at December 31, 2019 | $ | 8,633,589 |
| Cash payment of royalty during the period | | (834,014) |
| Change in fair value of contingent consideration included in operating expenses | | (806,390) |
| Contingent consideration earned and accrued in operating expenses | | 1,112,393 |
| Balance at September 30, 2020 | $ | 8,105,578 |

The contingent consideration liability of $8.1 million was classified as other current liabilities of $2.8 million and other long-term liabilities of $5.3 million on the condensed consolidated balance sheet as of September 30, 2020.

*RediTrex*

In November 2016, the Company announced an agreement with the Nordic Group B.V.' ("Nordic") to acquire the exclusive U.S. rights to Nordic's injectable methotrexate product line designed for the treatment of active rheumatoid arthritis, juvenile idiopathic arthritis, severe psoriatic arthritis, and severe disabling psoriasis.

As consideration for the license Cumberland paid a deposit of $100,000 at closing. The Company provided $0.9 million in consideration through a grant of 180,000 restricted shares of Cumberland common stock to be vested upon the FDA approval of the first Nordic product. Cumberland also agreed to provide Nordic a series of payments tied to the products' FDA approval, launch and achievement of certain sales milestones. Under the terms of the agreement, Cumberland is responsible for the product registration and commercialization in the U.S. Nordic is responsible for product manufacturing and supply.

On November 27, 2019, Cumberland received FDA approval for the first Nordic injectible product and authorization to market them under the RediTrex brand name. The 180,000 shares of restricted Cumberland common stock previously provided to Nordic vested upon approval and were valued at $0.9 million on the vesting date. The FDA approval also resulted in a $1.0 million milestone payment due to Nordic. This milestone payment was paid in July 2020 and was recorded as an other current liability at December 31, 2019. Cumberland has approximately $1.9 million in net intangible assets related to RediTrex at September 30, 2020. During the three months ended June 30, 2020, Cumberland recognized $0.5 million of other revenue in its condensed consolidated statement of operations for a collaborative payment due from Nordic. The payment was received during July 2020.

*Ethyol and Totect*

During May 2019, Cumberland entered into the Dissolution Agreement with Clinigen in which the Company returned the exclusive rights to commercialize Ethyol and Totect ("the Products") in the United States to Clinigen. This Dissolution Agreement originally targeted a transition from the Company's arrangements with Clinigen effective September 30, 2019, but was then amended to change the transition date to December 31, 2019. Under the terms of the Dissolution Agreement, Cumberland was no longer responsible for the distribution, marketing and promotion of either the Products or any competing products after December 31, 2019. In exchange for the return of these product license rights and the non-compete provisions of

the Dissolution Agreement, Cumberland is receiving $5 million in financial consideration paid in quarterly installments over the two-years following the transition date. Cumberland recorded the first three quarterly installments totaling $2.3 million during the nine months ended September 30, 2020 as discontinued operations and will record each future quarterly installment over the two year period. As there are no expenses associated with these payments, approximately $2.3 million in discontinued operations income was recorded during the period ended September 30, 2020.

The Products provided $8.8 million in revenue, with $5.5 million in direct expenses resulting in $3.3 million in discontinued operations income during the nine months ended September 30, 2019. These direct expenses do not reflect the direct selling and marketing costs attributable to the individuals at Cumberland responsible for promotion of the Products. Those sales and marketing individuals who supported the Products have subsequently shifted their efforts to support other Cumberland brands.

The December 31, 2019 current assets of discontinued operations included $0.5 million in remaining inventory for the Products sold and returned to Clinigen as part of the transaction. As of December 31, 2019, the remaining balance of the current assets of discontinued operations were accounts receivable and the current liabilities of discontinued operations were accounts payable associated with Ethyol and Totect. As of September 30, 2020, the remaining balance of the current assets of discontinued operations was accounts receivable. The accounts receivable and accounts payable balances were not sold or disposed of as part of the Dissolution Agreement.

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

*Disclosure regarding forward-looking statements*

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. Actual results may differ significantly from the results discussed in these forward-looking statements. Some important factors which may cause results to differ from expectations include: availability of additional debt and equity capital; market conditions at the time additional capital is required; our ability to continue to acquire branded products; product sales; management of our growth and integration of our acquisitions and impacts on our business as well as national and international markets and economies resulting from the 2020 COVID-19 pandemic. While forward-looking statements reflect our beliefs and best judgment based upon current information, they are not guarantees of future performance. Other important factors that may cause actual results to differ materially from forward-looking statements are discussed in the sections entitled "Risk Factors" and "Special Note Regarding Forward-Looking Statements" of our Annual Report on Form 10-K for the year ended December 31, 2019, our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2020 and September 30, 2020, respectively, and other filings with the SEC. We do not undertake to publicly update or revise any of our 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 our unaudited condensed consolidated financial statements and related notes included in this report on Form 10-Q.

## OVERVIEW

### Our Business

Cumberland Pharmaceuticals Inc. (“Cumberland,” the “Company,” or as used in the context of “we,” “us,” or “our”), is a specialty pharmaceutical company focused on the acquisition, development and commercialization of branded prescription products. Our primary target markets are hospital acute care and gastroenterology. These medical specialties are characterized by relatively concentrated prescriber bases that we believe can be penetrated effectively by small, targeted sales forces. Cumberland is dedicated to providing innovative products that improve the quality of care for patients and address unmet or poorly met medical needs. We promote our approved products through our hospital and field sales forces in the United States and are establishing a network of international partners to bring our medicines to patients in their countries.

Our portfolio of FDA approved brands includes:

- **Acetadote®** (*acetylcysteine*) Injection, for the treatment of acetaminophen poisoning;
- **Caldolor®** (*ibuprofen*) Injection, for the treatment of pain and fever;
- **Kristalose®** (*lactulose*) for Oral Solution, a prescription laxative, for the treatment of chronic and acute constipation;
- **Omeclamox®-Pak**, (*omeprazole, clarithromycin, and amoxicillin*) for the treatment of Helicobacter pylori (*H. pylori*) infection and related duodenal ulcer disease;
- **Vaprisol®** (*conivaptan*) Injection, to raise serum sodium levels in hospitalized patients with euvolemic and hypervolemic hyponatremia;
- **Vibativ®** (*telavancin*) Injection, for the treatment of certain serious bacterial infections including hospital-acquired and ventilator-associated bacterial pneumonia, as well as complicated skin and skin structure infections, and
- **RediTrex®** (*methotrexate*) Injection, for the treatment of active rheumatoid, juvenile idiopathic and severe psoriatic arthritis, as well as disabling psoriasis.

Additionally, we have Phase II clinical programs underway evaluating our ifetroban product candidates in patients with cardiomyopathy associated with Duchenne Muscular Dystrophy, Systemic Sclerosis, and Aspirin-Exacerbated Respiratory Disease. We have also completed initial Phase II clinical studies with ifetroban in patients with Hepatorenal Syndrome and patients with Portal Hypertension.

The Company has both product development and commercial capabilities, and we believe we can leverage our existing infrastructure to support our expected growth. Our management team consists of pharmaceutical industry veterans experienced in business development, product development, regulatory, manufacturing, sales, marketing, and finance. Our business development team identifies, evaluates and negotiates product acquisition, licensing and co-promotion agreements. Our product development team creates proprietary formulations, manages our clinical studies, prepares all regulatory submissions and staffs our medical call center. Our quality and manufacturing professionals oversee the manufacture, release and shipment of our products. Our marketing and sales team is responsible for our commercial activities, and we work closely with our distribution partners to ensure availability and delivery of our products.

### Growth Strategy

Cumberland's growth strategy involves maximizing the potential of our existing brands while continuing to build a portfolio of differentiated products. We currently market six FDA-approved products in the United States and expect to introduce our seventh product, RediTrex, before the end of 2020. Through our international partners, we are working to bring our medicines to patients in their countries. Our clinical team is developing a pipeline of new product candidates largely to address unmet medical needs. We also look for opportunities to expand the approved use of our products for additional patient populations through clinical trials, through new presentations, and through our support for select, investigator-initiated studies. Through our active business development initiative, we are pursuing the acquisition of additional marketed brands and late-stage development product candidates in our target medical specialties.

Furthermore, we are supplementing these activities with the earlier stage drug development at Cumberland Emerging Technologies ("CET"), our majority-owned subsidiary. CET partners with academic research institutions to identify and progress promising, new product candidates, which Cumberland has the opportunity to further develop and commercialize.

Specifically, we are seeking long term sustainable growth by executing on the following:

**Support and expand the use of our marketed products.** We continue to evaluate our products following their FDA approval to determine if additional clinical data could expand their market and use. We will continue to explore opportunities for label expansion to bring our products to new patient populations. As examples, we have secured pediatric approvals, expanding the labeling for both our Acetadote and Caldolor brands.

**Selectively add complementary brands.** In addition to our product development activities, we are also seeking to acquire products and late-stage development product candidates to continue to build a portfolio of complementary brands. We focus on under-promoted, FDA approved drugs, as well as late-stage development products that address poorly met medical needs. We will continue to target product acquisition candidates that are competitively differentiated, have valuable intellectual property or other protective features, and allow us to leverage our existing infrastructure. Our acquisition of Vibativ represents the largest product acquisition we have completed.

**Progress clinical pipeline and incubate future product opportunities at CET.** We believe it is important to build a pipeline of innovative new product opportunities. Our ifetroban Phase II development programs represent the implementation of this strategy. At CET, we are supplementing our acquisition and late-stage development activities with the early-stage drug development activities. CET partners with universities and other research organizations to develop promising, early-stage product candidates, which Cumberland has the opportunity to further develop and commercialize.

**Leverage our infrastructure through co-promotion partnerships.** We believe that our commercial infrastructure can help drive prescription volume and product sales. We also look for strategic co-promotion partners that can complement our capabilities and enhance the opportunity for our brands. Our co-promotion arrangements with Poly Pharmaceuticals, Inc. and Foxland Pharmaceuticals, Inc allow us to expand current promotional support for Kristalose across the U.S.

**Build an international contribution to our business.** We have established our own commercial capabilities, including two sales divisions to promote our approved brands in the U.S. We have also entered into agreements with a group of international partners to register our products and make them available to patients in their countries.

The acquisition of Vibativ resulted in several new international partners and market opportunities. We will continue to support and selectively expand our network of international partners, while assisting with the registration and commercialization efforts in their respective territories.

**Manage our operations with financial discipline.** We work to manage our expenses in line with our revenues in order to deliver positive cash flow from operations. Our goal is to maintain a healthy financial position, with favorable gross margins, and a strong balance sheet.

We were incorporated in 1999 and have been headquartered in Nashville, Tennessee since inception. During 2009, we completed an initial public offering of our common shares and listing on the Nasdaq stock exchange. Our website address is www.cumberlandpharma.com. We make available through our website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all material press releases and other reports as soon as reasonably practicable after their filing with the U.S. Securities and Exchange Commission, ("SEC"). These filings are also available to the public at *www.sec.gov*. In April 2020, we issued our inaugural Environmental, Social and Governance ("ESG") report which is also available on our website.

## RECENT DEVELOPMENTS

### COVID-19 Pandemic

In March 2020, the U.S. declared a health care emergency following the outbreak of the (SARS-CoV-2) strain of coronavirus that causes COVID-19, a respiratory illness.

Cumberland's facilities have remained open, as our business is considered to be essential by the United States Department of Homeland Security. We have implemented measures to address the impact of the novel coronavirus on our operations and taken appropriate action to protect our employees, secure our supply chain, and support the patients who can benefit from our medicines. All our employees have been provided the opportunity to work remotely, and those who wish to work at our offices are asked to follow the health guidelines outlined by the Centers for Disease Control.

Our sales organization has continued to interact with medical professionals, providing information and product samples as requested. However, their contact has shifted from in person to telephonic and electronic communications. Travel across the organization and attendance at medical meetings have largely been discontinued. Cumberland has faced the same headwinds affecting other companies that rely on hospital admissions and patient visits to drive revenue. During this pandemic, less patients sought care, some patients postponed elective surgeries and Cumberland's access to medical facilities was substantially limited.

We rely on third-party organizations around the world to supply components, manufacture and distribute our products. We are aware that we may experience revenue loss, supply interruptions, time delays and incur unplanned expenses as a result of the impact of the ongoing COVID-19 pandemic. We continue to monitor the coronavirus situation both in the U.S. and internationally in order to maintain our employees' safety and well-being, while also keeping our business operating. Given the uncertainty of such changes, we are unable to quantify the impact on our future results as of the date of this filing. For additional discussion of the risks associated with COVID-19, please review the section entitled "Risk Factors" of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2020.

### Omeclamox-Pak Supply Update

Cumberland has partnered with a select group of FDA-approved facilities to manufacture its line of branded pharmaceutical products. The Company has been carefully monitoring its supply chain during the pandemic and preparing for its economic impact. The packager for Cumberland's Omeclamox-Pak product encountered financial difficulties due to the impact of COVID-19, and their operations are currently suspended. Cumberland is awaiting resumption of those operations while also exploring other alternatives to restart the product's packaging. Meanwhile, we informed the FDA of a shortage of the Omeclamox-Pak effective October 14, 2020, and have not provided a date for the availability of new inventory. Cumberland noted that there is currently some remaining inventory of the product in the distribution channels. For additional discussion of the risks discussed above, see Part II, Item 1A "Risk Factors" in this Quarterly Report on Form 10-Q.

### Caldolor Clinical Manuscripts

A non-steroidal anti-inflammatory drug ("NSAID"), Caldolor may be used as the sole method of treatment for mild to moderate pain or as part of a multimodal treatment for severe pain. In January 2020, we commenced the national launch of our next generation Caldolor (*ibuprofen*) Injection product. This formulation of Caldolor comes in a ready-to-use bag that may be administered without dilution for pain relief. This launch follows FDA approval in 2019 of the product's new delivery method. The new, premixed presentation provides healthcare professionals a formulation that is easy to administer, helping manage the treatment of patient pain and fever, while reducing opioid consumption.

In July 2020, Cumberland announced a study published in the *Journal of Orthopedic Trauma*, evaluating the efficacy of Caldolor administration in the management of acute pain in orthopedic trauma patients. The study also measured Caldolor's ability in minimizing opioid use. This single-center, randomized, double-blind, placebo-controlled study found that Caldolor (ibuprofen) Injection reduced the quantity of opioids required to manage pain after a traumatic injury with fracture. In addition, the time to first narcotic medication was longer in the Caldolor group than with hospital standard of care. Pain was also managed better in the Caldolor group compared to standard of care narcotics.

Additionally, in August 2020, Cumberland announced the results of a review of nine clinical studies evaluating Caldolor. The comprehensive review was published in the journal *Clinical Therapeutics* and involved 1,062 adult patients, with 757 receiving Caldolor and 305 receiving placebo or a comparator medication. The data noted that the use of Caldolor improved post-surgery recovery, decreased surgical stress, and reduced the use of opioids and over-the-counter medication. The study determined that patients given Caldolor experienced less postoperative pain and decreased opioid use. Study authors also concluded that the rapid administration and preemptive use of Caldolor should be considered in Enhanced Recovery After Surgery protocols for the management of postoperative pain including that of traumatic origin.

**Joint Venture Agreement**

In August 2020, Cumberland entered into an agreement with WinHealth Investment (Singapore) Ltd creating *WHC Biopharmaceuticals, Pte. Ltd*. The joint venture will focus on acquiring, developing, registering, and commercializing development stage and commercial stage biopharmaceuticals for China, Hong Kong and other Asian markets.

**Paycheck Protection Program**

On April 20, 2020, Cumberland received the funding of a loan from Pinnacle Bank in the aggregate amount of $2,187,140 pursuant to the Paycheck Protection Program (the “PPP”) under the Federal Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), which was enacted March 27, 2020.

The PPP is administered by the U.S. Small Business Administration ("SBA"). The loan matures April 14, 2022, and bears interest at a rate of 1.0% per year, payable monthly commencing during November 2020.

The loan may be prepaid at any time prior to maturity with no prepayment penalties. Funds from the loan are to be used to maintain payroll, continue group health care benefits and pay for rent and utilities.

Under the terms of the PPP, certain amounts of the loan may be forgiven if they are used for qualifying expenses as described in the CARES Act, including qualifying payroll costs, covered rent payments, and covered utilities. From the date of funding we have used the loan amount for such qualifying expenses.

We applied for this loan after carefully considering, with our bank, the eligibility criteria to participate in this program, and determining that Cumberland met these criteria. We evaluated and provided information on our payroll and other qualifying expenses to determine the amount of PPP funds to apply for.

Cumberland has not laid off or furloughed any employees as a result of the COVID-19 pandemic and, based on assistance from our PPP loan, we currently do not foresee doing so. In October 2020, we submitted a request for forgiveness of the PPP loan. The request was approved by the lender, Pinnacle Bank, who then submitted it to the SBA for the SBA's review and approval.

**Ifetroban Phase II Clinical Programs**

We have been evaluating our ifetroban product candidate in a series of clinical studies. We have completed three pilot Phase II studies involving 1) patients suffering from Hepatorenal Syndrome, a life-threatening condition involving liver and kidney failure, 2) patients with Portal Hypertension associated with chronic liver disease and 3) patients suffering from Aspirin-Exacerbated Respiratory Disease, a severe form of asthma. A follow-up Phase II study is currently underway for this asthma indication.

In addition, we are currently evaluating ifetroban in two pilot Phase II studies of 1) patients with Systemic Sclerosis or scleroderma, a debilitating autoimmune disorder characterized by diffuse fibrosis of the skin and internal organs and 2) patients with cardiomyopathy associated with Duchenne Muscular Dystrophy. This rare, fatal, genetic neuromuscular disease results in deterioration of the skeletal, heart and lung muscles.

Additional pilot studies of ifetroban are underway, including several investigator-initiated trials.

Enrollment in our clinical studies was interrupted during 2020 due to the COVID-19 pandemic. While enrollment of new patients is currently limited, we are working to ensure that patients already entered into a trial continue to receive their study drug. Many of our clinical study sites have reopened and resumed screening of patients for potential enrollment into our studies. We are awaiting results from the studies underway before deciding on the best development path for the registration of ifetroban, our first new chemical entity.

**New Hospital Product Candidate**

Cumberland was responsible for the formulation, development and FDA approval of both Acetadote and Caldolor. Our Medical Advisory Board has helped us identify additional opportunities that address unmet or poorly met medical needs. As a result, Cumberland has successfully designed, formulated and completed the preclinical studies for a cholesterol-reducing agent for use in the hospital setting.

During 2017, we completed a Phase I study which defined the pharmacokinetic properties and provided a favorable safety profile for this new product candidate. The study results and a proposed clinical development plan were discussed with the FDA. A Phase II study has been initiated and patient enrollment completed. We have completed the study report, filed it with the FDA and are now determining the next steps for this product development program.

## CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGMENTS AND ESTIMATES

Please see a discussion of our critical accounting policies and significant judgments and estimates in Note 1 to the Company's Condensed Consolidated Financial Statements accompanying this report and the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our 2019 Annual Report on Form 10-K.

### Accounting Estimates and Judgments

The preparation of condensed 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 cannot be 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, fair value of marketable securities, inventories, provision for income taxes, fair value of contingent consideration liability, share-based compensation, research and development expenses and intangible assets.

**RESULTS OF OPERATIONS**

**Three months ended September 30, 2020 compared to the three months ended September 30, 2019**

The following table presents the unaudited interim statements of operations for continuing operations for the three months ended September 30, 2020 and 2019:

| | Three months ended September 30, | | |
|---|---|---|---|
| | **2020** | **2019** | **Change** |
| Net revenues | $ 9,250,689 | $ 6,935,439 | $ 2,315,250 |
| Costs and expenses: | | | |
| Cost of products sold | 2,142,839 | 1,580,650 | 562,189 |
| Selling and marketing | 3,587,842 | 3,812,467 | (224,625) |
| Research and development | 1,230,335 | 1,672,843 | (442,508) |
| General and administrative | 2,381,273 | 2,032,129 | 349,144 |
| Amortization | 1,117,086 | 1,033,786 | 83,300 |
| Total costs and expenses | 10,459,375 | 10,131,875 | 327,500 |
| Operating income (loss) | (1,208,686) | (3,196,436) | 1,987,750 |
| Interest income | 12,004 | (50,511) | 62,515 |
| Interest expense | (75,210) | (64,877) | (10,333) |
| Income (loss) from continuing operations before income taxes | (1,271,892) | (3,311,824) | 2,039,932 |
| Income tax (expense) benefit | (3,728) | (4,462) | 734 |
| Net income (loss) from continuing operations | $ (1,275,620) | $ (3,316,286) | $ 2,040,666 |

The following table summarizes net revenues by product for the periods presented:

| | Three months ended September 30, | | |
|---|---|---|---|
| | **2020** | **2019** | **Change** |
| Products: | | | |
| Acetadote | $ 218,462 | $ 777,185 | $ (558,723) |
| Omeclamox-Pak | 516,066 | 116,063 | 400,003 |
| Kristalose | 3,615,557 | 2,924,237 | 691,320 |
| Vaprisol | 406,162 | 224,940 | 181,222 |
| Caldolor | 1,416,146 | 1,170,567 | 245,579 |
| Vibativ | 2,813,249 | 1,451,595 | 1,361,654 |
| Other revenue | 265,047 | 270,852 | (5,805) |
| Total net revenues | $ 9,250,689 | $ 6,935,439 | $ 2,315,250 |

*Net revenues.* Net revenues for the three months ended September 30, 2020, were $9.3 million compared to $6.9 million for the three months ended September 30, 2019. As detailed in the table above, net revenue increased for five of our marketed products: Vibativ, Kristalose, Omeclamox-Pak, Caldolor and Vaprisol during the quarter. We returned the exclusive rights to commercialize Ethyol and Totect in the United States to Clinigen effective January 1, 2020. As a result, the 2019 revenues and expenses associated with the products are combined and reclassified into discontinued operations in our financial statements. In exchange for the return of these product license rights and associated non-compete provisions, Cumberland is receiving $5 million in financial consideration paid over the two-years following the return date. The third installment of $0.8 million due from Clinigen was recorded during the three months ended September 30, 2020, as discontinued operations. We do not incur expenses associated with these payments from Clinigen.

Vibativ revenue was $2.8 million for the three months ended September 30, 2020, an increase of $1.4 million over the same period last year. The increase was a result of improved sales volumes.

Kristalose revenue increased by $0.7 million during the third quarter of 2020, when compared to the prior year period. The increase was primarily the result of increased sales volumes for the product.

Caldolor revenue was $1.4 million for the third quarter of 2020, an increase of $0.2 million compared to the same period last year. The improvement in net revenue was the result of an increase in international shipments of Caldolor when compared to the prior year period, which were partially offset by lower domestic shipments of the product.

Vaprisol revenue was $0.4 million for the third quarter of 2020, an increase of $0.2 million. This increase of net sales compared to the third quarter of 2019 is primarily due to increased sales volumes for the product.

Omeclamox-Pak revenue increased $0.4 million for the third quarter of 2020, compared to the third quarter of 2019, primarily due to an increase in sales volumes and improved net pricing.

Acetadote revenue includes net sales of our Acetadote brand and our share of net sales from our Authorized Generic. During the quarter, there was a decrease of $0.6 million in the product's revenue when compared to the prior year period as a result of lower sales volumes during the period.

*Cost of products sold*. Cost of products sold for the third quarter of 2020 and 2019 were $2.1 million and $1.6 million, respectively. Cost of products sold, as a percentage of net revenues, were 23.2% during the three months ended September 30, 2020, compared to 22.8% during the three months ended September 30, 2019. This change in costs of products sold as a percentage of revenue was attributable to a change in the product sales mix, particularly the increase in sales of Vibativ. The increase in Vibativ costs of product sold in the current period was $0.4 million due to increased product sales. The Vibativ inventory sold during the period was acquired and paid for by Cumberland as part of the acquisition of the brand during 2018. The increase in costs of product sold expense included $0.2 million that was the result of a step up in the fair value of the inventory over the cost to Theravance, as required under purchase accounting rules.

*Selling and marketing*. Selling and marketing expense for the third quarter of 2020 decreased $0.2 million compared to the prior year period. This decrease is primarily attributable to decreases in direct promotional spending, meeting costs and travel expenses. There were partially offsetting increases in royalty costs associated with growth in Vibativ sales during the current quarter.

*Research and development*. Research and development costs were $1.2 million for the third quarter of 2020 and $1.7 million for the same period last year. A portion of our research and development costs is variable based on the number of trials, study sites, cost of the per patient study protocol and patients involved in the development of our new product candidates. We continue to fund our ongoing clinical initiatives associated with our pipeline products. The decrease in costs were primarily the result of decreased study activity as well as decreases in the costs of our medical science liaison activities partially offset by increases in our annual FDA user fees.

*General and administrative*. General and administrative expense for the third quarter of 2020 increased to $2.4 million from $2.0 million during the third quarter of 2019 as a result of increases in business development, professional, legal and insurance costs. These increases were partially offset by decreases in non-cash stock based compensation during the period.

The components of the statements of operations discussed above reflect the following impacts from Vibativ:

| **Financial Impact of Vibativ** | **Three months ended September 30,** | |
|---|---|---|
| | **2020** | **2019** |
| Net revenue | $ 2,813,249 | $ 1,451,595 |
| Cost of products sold [(1)] | 945,066 | 524,664 |
| Royalty and operating expenses | 621,244 | 160,968 |
| Vibativ contribution | $ 1,246,939 | $ 765,963 |

[(1)] The Vibativ inventory included in the costs of product sold during the period was acquired and paid for by Cumberland as part of the acquisition of the brand during 2018.

*Amortization.* Amortization expense is the ratable use of our capitalized intangible assets including product and license rights, patents, trademarks and patent defense costs. Amortization for the three months ended September 30, 2020, and three months ended September 30, 2019, totaled approximately $1.1 million and $1.0 million, respectively.

*Income taxes*. Income tax expense for the three months ended September 30, 2020, was comparable to the income tax expense for the three months ended September 30, 2019.

As of September 30, 2020, we had approximately $44 million of net operating loss carryforwards resulting from the exercise of nonqualified stock options that have historically been used to significantly offset income tax obligations. We expect to continue to pay minimal income taxes during 2020 and beyond, through the continued utilization of these net operating loss carryforwards, on any taxable income generated from our operations.

**RESULTS OF OPERATIONS**

**Nine months ended September 30, 2020 compared to the nine months ended September 30, 2019**

The following table presents the unaudited interim statements of operations for continuing operations for the nine months ended September 30, 2020 and 2019:

| | Nine months ended September 30, | | |
|---|---|---|---|
| | **2020** | **2019** | **Change** |
| Net revenues | $ 27,179,600 | $ 25,082,742 | $ 2,096,858 |
| Costs and expenses: | | | |
| Cost of products sold | 6,387,002 | 5,031,732 | 1,355,270 |
| Selling and marketing | 11,160,924 | 11,231,778 | (70,854) |
| Research and development | 4,374,392 | 4,788,698 | (414,306) |
| General and administrative | 6,608,322 | 6,839,187 | (230,865) |
| Amortization | 3,284,610 | 3,085,139 | 199,471 |
| Total costs and expenses | 31,815,250 | 30,976,534 | 838,716 |
| Operating income (loss) | (4,635,650) | (5,893,792) | 1,258,142 |
| Interest income | 70,553 | 195,915 | (125,362) |
| Interest expense | (227,730) | (216,988) | (10,742) |
| Income (loss) from continuing operations before income taxes | (4,792,827) | (5,914,865) | 1,122,038 |
| Income tax (expense) benefit | (45,423) | 72,504 | (117,927) |
| Net income (loss) from continuing operations | $ (4,838,250) | $ (5,842,361) | $ 1,004,111 |

The following table summarizes net revenues by product for the periods presented:

| | Nine months ended September 30, | | |
|---|---|---|---|
| | **2020** | **2019** | **Change** |
| Products: | | | |
| Acetadote | $ 1,527,173 | $ 2,608,160 | $ (1,080,987) |
| Omeclamox-Pak | 640,435 | 794,205 | (153,770) |
| Kristalose | 10,387,046 | 9,720,434 | 666,612 |
| Vaprisol | 790,817 | 724,143 | 66,674 |
| Caldolor | 3,677,434 | 3,543,166 | 134,268 |
| Vibativ | 8,551,125 | 6,156,653 | 2,394,472 |
| Other revenue | 1,605,570 | 1,535,981 | 69,589 |
| Total net revenues | $ 27,179,600 | $ 25,082,742 | $ 2,096,858 |

*Net revenues.* Net revenues for the nine months ended September 30, 2020, were $27.2 million compared to $25.1 million for the nine months ended September 30, 2019. As detailed in the table above, net revenue increased during the first nine months of 2020 for four of our marketed products: Vibativ, Kristalose, Caldolor and Vaprisol. This resulted in an overall 8.4% revenue increase partially offset by decreases in our other two products. We returned the exclusive rights to commercialize Ethyol and Totect in the United States to Clinigen effective January 1, 2020. As a result, the 2019 revenues and expenses associated with the products are combined and reclassified into discontinued operations in our financial statements. In exchange for the return of these product license rights and associated non-compete provision, Cumberland is receiving $5 million in financial consideration paid over the two-years following the return date. The first three installments totaling $2.3 million due from Clinigen was recorded during the nine months ended September 30, 2020, as discontinued operations. We do not incur expenses associated with these payments from Clinigen.

Vibativ revenue was $8.6 million for the nine months ended September 30, 2020, an increase of $2.4 million over the same period last year. The 38.9% increase in net revenue was a result of improved sales volume for the product.

Kristalose revenue was $10.4 million during the first nine months of 2020, an increase of $0.7 million for the same period last year. The 7% increase in net revenue was a result of improved sales volume for the product.

Vaprisol revenue was $0.8 million for the first nine months of 2020, which is an increase of net sales of $0.1 million compared to the first nine months of 2019 primarily due to increased sales volumes.

Omeclamox-Pak revenue decreased $0.2 million for the nine months ended September 30, 2020, compared to the nine months ended September 30, 2019, primarily due to a decrease in sales volumes.

Acetadote revenue includes net sales of our Acetadote brand and our share of net sales from our Authorized Generic. There was a decrease of $1.1 million in the product's year to date revenue for the nine months ended September 30, 2020, when compared to the prior year period as a result of lower sales volumes, partially offset by improved net pricing.

Caldolor revenue was $3.7 million for the first three quarters of 2020, an increase of $0.1 million compared to the same period last year. The 4% improvement in net revenue was the result of an increase in international shipments of Caldolor when compared to the prior year period, which were partially offset by lower domestic shipments of the product, significantly impacted by COVID - 19 and a reduction in elective surgeries.

*Cost of products sold*. Cost of products sold for the first nine months of 2020 and 2019 were $6.4 million and $5.0 million, respectively. Cost of products sold, as a percentage of net revenues, were 23.5% during the nine months ended September 30, 2020, compared to 20.1% during the nine months ended September 30, 2019. This change in costs of products sold as a percentage of revenue was attributable to a change in the product sales mix, particularly the increase in sales of Vibativ. The increase in Vibativ costs of product sold in the current period was $1.0 million due to increased product sales. The Vibativ inventory sold during the period was acquired and paid for by Cumberland as part of the acquisition of the brand during 2018. The increase in costs of product sold expense included $0.5 million that was the result of a step up in the fair value of the inventory over the cost to Theravance, as required under purchase accounting rules.

*Selling and marketing*. Selling and marketing expense for the nine months ended September 30, 2020 and 2019 were both $11.2 million. Overall, there was a small decrease in selling and marketing expenses, with decreases in direct promotional spending, meeting costs and travel expenses. These decreases were partially offset by increases in salaries as well as increases in royalty costs associated with growth in Vibativ sales during the period.

*Research and development*. Research and development costs were $4.4 million for the first nine months of 2020 and $4.8 million for the same period last year. A portion of our research and development costs is variable based on the number of trials, study sites, cost of the per patient study protocol and patients involved in the development of our new product candidates. We continue to fund our ongoing clinical initiatives associated with our pipeline products. We experienced a decrease in study activity offset by increases in our annual FDA user fees.

*General and administrative*. General and administrative expense for the nine months ended September 30, 2020, decreased to $6.6 million from $6.8 million during the nine months ended September 30, 2019 as a result of decreases in advisory, legal and professional fees. We also experienced a reduction in non-cash stock based compensation during the period. A portion of these decreased costs were for 2019 expenses related to our acquisition of Vibativ.

The components of the statements of operations discussed above reflect the following impacts from Vibativ:

| **Financial Impact of Vibativ** | **Nine months ended September 30,** | |
|---|---|---|
| | **2020** | **2019** |
| Net revenue | $ 8,551,125 | $ 6,156,653 |
| Cost of products sold [(1)] | 2,765,810 | 1,760,759 |
| Royalty and operating expenses | 1,325,199 | 1,033,900 |
| Vibativ contribution | $ 4,460,116 | $ 3,361,994 |

[(1)] The Vibativ inventory included in the costs of product sold during the period was acquired and paid for by Cumberland as part of the acquisition of the brand during 2018.

*Amortization.* Amortization expense is the ratable use of our capitalized intangible assets including product and license rights, patents, trademarks and patent defense costs. Amortization for the nine months ended September 30, 2020, and nine months ended September 30, 2019, totaled approximately $3.3 million and $3.1 million, respectively.

*Income taxes*. Income tax expense (benefit) for the nine months ended September 30, 2020, as a percentage of loss from continuing operations before income taxes, was 0.9%, compared to (1.2)% for the nine months ended September 30, 2019.

## LIQUIDITY AND CAPITAL RESOURCES

### Working Capital

Our primary sources of liquidity are cash flows provided by our operations, the proceeds from the Paycheck Protection Program loan, the amounts borrowed and available under our line of credit 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, existing working capital and our line of credit will be adequate to finance internal growth, finance business development initiatives, and fund capital expenditures for the foreseeable future.

We invest a portion of our cash reserves in marketable securities including short-term cash investments, U.S. Treasury notes and bonds, corporate bonds and commercial paper. At September 30, 2020 and December 31, 2019, all our investments had original maturities of less than ninety days and as a result were classified as cash equivalents.

The following table summarizes our liquidity and working capital as of September 30, 2020 and December 31, 2019:

| | September 30, 2020 | December 31, 2019 |
|---|---|---|
| Cash and cash equivalents | $ 26,646,530 | $ 28,212,635 |
| Marketable securities | — | — |
| Total cash, cash equivalents and marketable securities | $ 26,646,530 | $ 28,212,635 |
| | | |
| Working capital (current assets less current liabilities) | $ 24,956,038 | $ 26,012,840 |
| Current ratio (multiple of current assets to current liabilities) | 2.0 | 2.1 |
| | | |
| Revolving line of credit availability | $ 3,000,000 | $ 1,500,000 |

The following table summarizes our net changes in cash and cash equivalents for the nine months ended September 30, 2020 and September 30, 2019:

| | Nine months ended September 30, | |
|---|---|---|
| | 2020 | 2019 |
| Net cash provided by (used in): | | |
| Operating activities | $ 4,561,140 | $ 2,199,356 |
| Investing activities | (1,441,768) | 394,733 |
| Financing activities | (4,685,477) | (3,554,625) |
| Net decrease in cash and cash equivalents | $ (1,566,105) | $ (960,536) |

The net $1.6 million decrease in cash and cash equivalents for the nine months ended September 30, 2020, was primarily attributable to cash used in investing and financing activities. Cash provided by operating activities of $4.6 million was positively impacted by decreases in inventory of $1.7 million, as well as the add back of non-cash expenses of depreciation, amortization and share-based compensation expense totaling $4.3 million. Cash used by investing activities was the result of additions to intangibles of $1.8 million, equipment of $0.1 million and the payment of $1.0 million to Nordic. Our financing activities included the net repayment of $1.5 million on our revolving line of credit, the $1.6 million in cash used to repurchase shares of our common stock as well as the $0.8 million used for the repurchase of a portion of CET's shares.

The net $1.0 million decrease in cash and cash equivalents for the nine months ended September 30, 2019 was attributable to cash used in financing activities, partially offset by the $2.2 million and the $0.4 million in cash provided by operating and investing activities, respectively. Cash provided by operating activities of $2.2 million was positively impacted by the decrease in inventory as well as the add back of non-cash expenses of depreciation, amortization and share-based compensation expense totaling $4.4 million. Cash provided by investing activities was increased by net sales of marketable securities of $6.1 million, partially offset by the $5.0 million payment to Theravance as part of the acquisition of Vibativ and the additions to intangibles of $0.5 million. Our financing activities reflected the $2.6 million in cash used to repurchase shares of our common stock.

**Debt Agreement**

On October 7, 2020, we entered into a Fourth Amendment (“Fourth Amendment”) to the Revolving Credit Loan Agreement with Pinnacle Bank (the “Pinnacle Agreement”). The Fourth Amendment extends the maturity date of the Pinnacle Agreement through October 1, 2022 and provides for a principal available for borrowing of up to $15 million. We also have the ability to request an increase of up to an additional $5 million, upon the satisfaction of certain conditions and approval by Pinnacle Bank. If fully expanded, the Fourth Amendment would provide a maximum principal available for borrowing of up to $20 million. On May 10, 2019, we entered into a third amendment ("Third Amendment") to the Revolving Credit Loan Agreement, dated July 28, 2017, with Pinnacle Bank (“Pinnacle Agreement”). The Third Amendment extended the term of the Pinnacle Agreement through July 31, 2021, as well as modified certain definitions and terms of the existing financial covenants. On October 17, 2018, we entered into a second amendment (“Second Amendment”) which increased the maximum aggregate principal available for borrowing under the Pinnacle Agreement to $20.0 million. For a summary of the material terms of the Pinnacle Agreement, as amended, see Note 7 to the accompanying unaudited condensed consolidated financial statements.

Under the Pinnacle Agreement, we were initially subject to one financial covenant, the maintenance of a Funded Debt Ratio. On August 14, 2018, we amended the Pinnacle Agreement ("First Amendment") to replace the single financial covenant with the maintenance of either the Funded Debt Ratio or a Tangible Capital Ratio, as defined in the First Amendment. The Third Amendment modified the definition of the Funded Debt Ratio and the compliance target of the Tangible Capital Ratio. Both Third Amendment modifications were related to the Vibativ transaction. We were in compliance with the Tangible Capital Ratio financial covenant as of September 30, 2020. We expect to maintain compliance with the Tangible Capital Ratio financial covenant in future periods.

**Paycheck Protection Program Loan**

On April 20, 2020, Cumberland received the funding of a loan from Pinnacle Bank in the aggregate amount of $2,187,140 pursuant to the Paycheck Protection Program (the “PPP”) under the Federal Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), which was enacted March 27, 2020. For a summary of the material terms of the Paycheck Protection Program loan, see Note 7 to the accompanying unaudited condensed consolidated financial statements.

Under the terms of the PPP, certain amounts of the loan may be forgiven if they are used for qualifying expenses as described in the CARES Act, including qualifying payroll costs, covered rent payments, and covered utilities. From the date of funding we have used the loan amount for such qualifying expenses.

Cumberland has not laid off or furloughed any employees as a result of the COVID-19 pandemic and, based on assistance from our PPP loan, we currently do not foresee doing so. In October 2020, we submitted a request for forgiveness of the PPP loan. The request was approved by the lender, Pinnacle Bank, who then submitted it to the U.S. Small Business Administration ("SBA") for the SBA's review and approval.

**OFF-BALANCE SHEET ARRANGEMENTS**

During the nine months ended September 30, 2020 and 2019, we did not engage in any off-balance sheet arrangements.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

**Interest Rate Risk**

We are exposed to market risk related to changes in interest rates on our cash on deposit in highly-liquid money market accounts and our revolving credit facility. 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.

We believe that our interest rate risk related to our cash and cash equivalents is not material. The risk related to interest rates for these accounts would produce less income than expected if market interest rates fall. Based on current interest rates, we do not believe we are exposed to significant downside risk related to a change in interest on our money market accounts. The Company did not have any investments classified as marketable securities at September 30, 2020. Based on current interest rates, we do not believe we are exposed to significant downside risk related to change in interest on our investment accounts.

The interest rate risk related to borrowings under our line of credit is based on LIBOR plus an interest rate spread. The pricing under the Fourth Amendment of the Pinnacle Agreement provides for an interest rate spread of 1.75% to 2.75% above LIBOR with a minimum LIBOR of 0.90%. The applicable interest rate under the Pinnacle Agreement was 2.90% at September 30, 2020, prior to entering into the Fourth Amendment. As of September 30, 2020, we had $17.0 million in borrowings outstanding under our revolving credit facility.

**Exchange Rate Risk**

While we operate primarily in the United States, we are exposed to foreign currency risk. 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 a portion of the exposure being limited to 30 days based on the due date of the invoice. Foreign currency exchange gains and losses were immaterial for the nine months ended September 30, 2020 and 2019. Neither a five percent increase nor decrease from current exchange rates would have a material effect on our operating results or financial condition.

**Item 4. Controls and Procedures**

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, the Company's management has concluded that, as of the end of such period, the Company's disclosure controls and procedures were effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act.

During the three months ended September 30, 2020, there has not been any change in our internal control over financial reporting that has materially affected, or is likely to materially affect, our internal control over financial reporting.

## PART II – OTHER INFORMATION

**Item 1. Legal Proceedings**

None.

**Item 1A. Risk Factors**

We are updating the following risk factor that appears in the 2019 Annual Report on Form 10-K under the section titled "Risk Factors."

**RISKS RELATED TO OUR BUSINESS**

*If any manufacturer or partner we rely upon fails to supply our products in the amounts we require on a timely basis, or fails to comply with stringent regulations applicable to pharmaceutical drug manufacturers, we may be unable to meet demand for our products and may lose potential revenues.*

We do not manufacture any of our products, and we do not currently plan to develop any capacity to do so. Our dependence upon third parties for the manufacture of our products could adversely affect our profit margins or our ability to develop and deliver products on a timely and competitive basis. If for any reason we are unable to obtain or retain third-party manufacturers on commercially acceptable terms, we may not be able to sell our products as planned. Furthermore, if we encounter delays or difficulties with contract manufacturers in producing our products, the distribution, marketing and subsequent sales of these products could be adversely affected. A long-term inability to meet demand for our products could result in impairment of our brands overall future and the carrying value of the assets associated with our brands. The recent COVID-19 pandemic may create local issues for our third party-manufacturers and introduce delays in our manufacturing process.

*Acetadote*: We have agreements with two manufacturers, and one manufacturer provided commercial supplies of the product during 2019. If the manufacturer of Acetadote is unable to produce marketable inventory in sufficient quantities, in the agreed upon time period, we could suffer an inability to meet demand for our product.

*Caldolor*: We have agreements with multiple manufacturers for the supply of Caldolor and during 2019 we obtained commercial supplies from three of these manufacturers for our international and domestic Caldolor requirements. If the manufacturers of Caldolor are unable to produce marketable inventory in sufficient quantities, in the agreed upon time period, we could suffer an inability to meet demand for our product.

*Kristalose*: The active pharmaceutical ingredient for Kristalose is manufactured at a single facility by an international supplier. We also have manufacturing relationships with two packagers who provided finished supplies of the product for commercial and sampling purposes during 2019. If these facilities are damaged or destroyed, or if local conditions result in a work stoppage, we could suffer an inability to meet demand for our product. Kristalose is manufactured through a complex process. It would be particularly difficult to find a new manufacturer of Kristalose active pharmaceutical ingredient on an expedited basis. As a result of these factors, our ability to manufacture Kristalose may be substantially impaired if the manufacturer is unable or unwilling to supply sufficient quantities of the product.

*Omeclamox-Pak*: Prior to our asset purchase agreement with GEL that closed in December 2018, GEL managed the packaging and supply of Omeclamox-Pak commercial and sample units. Following our acquisition of the remaining rights to the brand in late 2018, we assumed responsibility for the packaging and supply of the product. During 2019 we entered into a new packaging arrangement for this product. The Company has been carefully monitoring its supply chain during the pandemic and preparing for its economic impact. The packager for Cumberland’s Omeclamox-Pak product encountered financial difficulties due to the impact of COVID-19, and their operations are currently suspended. Cumberland is awaiting resumption of those operations while also exploring other alternatives to restart the product’s packaging. Meanwhile, we informed the FDA of a shortage of the Omeclamox-Pak effective October 14, 2020, and have not provided a date for the availability of new inventory. Cumberland noted that there is currently some remaining inventory of the product in the distribution channels. If we are unable to obtain marketable inventory in the future, we could suffer an inability to meet demand for our product.

*Vaprisol*: As part of the acquisition of Vaprisol, we purchased an existing supply of raw material inventory. In addition, as part of this transaction, we were assigned a commercial supply agreement with the historical Vaprisol manufacturer. In 2018, the manufacturer informed us that they would no longer be able to provide the product following the manufacturing of one final batch which is expected to provide us with a multi-year supply. Therefore, we are evaluating alternatives for a new manufacturer to provide us with long term supplies of the product. If we are unable to produce additional marketable inventory in sufficient quantities of Vaprisol, we could suffer an inability to meet demand for our product.

*Vibativ*: Through our acquisition of Vibativ, we acquired a multi-year supply of raw material, work in process and finished goods inventory. As a result of the agreement, we are now responsible for the future manufacture of the product and completed the transfer of the product's manufacturing activities to a new supplier in 2019. If we are unable to obtain marketable inventory in the future, we could suffer an inability to meet demand for our product.

*RediTrex*: Under our agreement with Nordic, they will be responsible for providing us the packaged and labeled commercial supply of the RediTrex product. If we are unable to obtain marketable inventory in the future, we could suffer an inability to meet demand for our product.

In addition, all manufacturers of our products and product candidates must comply with current good manufacturing practices, ("GMPs"), enforced by the FDA through its facilities inspection program. These requirements include quality control, quality assurance and the maintenance of records and documentation. Manufacturers of our products may be unable to comply with GMP requirements and with other FDA, state and foreign regulatory requirements.

We have no control over our manufacturers' compliance with these regulations and standards. If our third-party manufacturers do not comply with these requirements, we could be subject to:

- Fines and civil penalties;
- Suspension of production or distribution;
- Suspension or delay in product approval;
- Product seizure or recall; and
- Withdrawal of product approval.

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

**Purchases of Equity Securities**

We currently have a share repurchase program to purchase up to $10 million of our common stock pursuant to Rule 10b-18 of the Exchange Act. In January 2019, our Board of Directors established the current $10 million repurchase program to replace the prior authorizations for repurchases of our outstanding common stock.

The following table summarizes the activity, by month, during the three months ended September 30, 2020:

| Period | Total Number of Shares (or Units) Purchased (1) | | 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 Plans or Programs (1) |
|---|---|---|---|---|---|
| July | 33,887 | | $ 3.31 | 33,887 | $ 6,711,736 |
| August | 31,196 | | 3.37 | 31,196 | 6,606,469 |
| September | 36,271 | (1) | 3.33 | 36,271 | 6,485,814 |
| Total | 101,354 | | | 101,354 | |

(1) Of this amount, 1,324 shares were repurchased directly through private purchases at the then-current fair market value of common stock.

**Item 6. Exhibits**

| No. | Description |
|---|---|
| 10.1* | Third Amendment to Revolving Credit Note and Fourth Amendment to Revolving Credit Loan Agreement, dated as of October 7, 2020 by and between Cumberland Pharmaceuticals Inc. and Pinnacle Bank. |
| 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 and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS* | XBRL INSTANCE DOCUMENT - THE INSTANCE DOCUMENT DOES NOT APPEAR IN THE INTERACTIVE DATA FILE BECAUSE ITS XBRL TAGS ARE EMBEDDED WITHIN THE INLINE XBRL DOCUMENT. |
| 101.SCH* | XBRL TAXONOMY EXTENSION SCHEMA DOCUMENT |
| 101.CAL* | XBRL TAXONOMY EXTENSION CALCULATION LINKBASE DOCUMENT |
| 101.DEF* | XBRL TAXONOMY EXTENSION DEFINITION LINKBASE DOCUMENT |
| 101.LAB* | XBRL TAXONOMY EXTENSION LABEL LINKBASE DOCUMENT |
| 101.PRE* | XBRL TAXONOMY EXTENSION PRESENTATION LINKBASE DOCUMENT |

* Filed herewith.
** Furnished herewith.

**SIGNATURES**

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

Cumberland Pharmaceuticals Inc.

Date: November 13, 2020

By: /s/ Michael Bonner
Michael Bonner
Chief Financial Officer

**THIRD AMENDMENT TO REVOLVING CREDIT NOTE AND**
**FOURTH AMENDMENT TO REVOLVING CREDIT LOAN AGREEMENT**

THIS THIRD AMENDMENT TO REVOLVING CREDIT NOTE AND FOURTH AMENDMENT TO REVOLVING CREDIT LOAN AGREEMENT (this "**Amendment**") is entered into as of October 7, 2020, by and between CUMBERLAND PHARMACEUTICALS INC., a Tennessee corporation ("**Borrower**"), and PINNACLE BANK, a Tennessee banking corporation (the "**Lender**").

**RECITALS:**

A. Borrower issued to the order of Lender that certain $12,000,000.00 Revolving Credit Note dated July 31, 2017, as amended by that certain First Amendment to Revolving Credit Note and Second Amendment to Revolving Credit Loan Agreement dated October 17, 2018 whereby among other changes the principal amount thereof was increased to up to $20,000,000.00, and as amended by that certain Second Amendment to Revolving Credit Note and Third Amendment to Revolving Credit Loan Agreement dated May 10, 2019 (the "**Note**").

B. Borrower and the Lender entered into that certain Revolving Credit Loan Agreement dated as of July 31, 2017, as amended by that certain First Amendment to Revolving Credit Loan Agreement dated August 14, 2018, as amended by that certain First Amendment to Revolving Credit Note and Second Amendment to Revolving Credit Loan Agreement dated October 17, 2018 ("**Second Amendment to Loan Agreement**"), and as amended by that certain Second Amendment to Revolving Credit Note and Third Amendment to Revolving Credit Loan Agreement dated May 10, 2019 (the "**Loan Agreement**"). Capitalized terms not otherwise defined therein have the same meaning as set forth in the Loan Agreement.

C. Borrower and the Lender desire to amend the Note and Loan Agreement as provided herein.

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, the parties hereto agree as follows:

1. The maximum principal amount of the Note, as set forth in the upper right hand corner of the first page and within the first paragraph thereof, is hereby decreased by $5,000,000.00 to $15,000,000.00.
2. The fifth paragraph of the Note, regarding repayment, is hereby amended and restated as follows:

   This Note shall be payable as follows: (a) commencing on October 1, 2020 and continuing on the 1st day of each consecutive month thereafter through and including September 1, 2022, the Borrower shall pay to the Lender and amount equal to all accrued and unpaid interest; and (b) this Note shall mature on October 1, 2022 (the "**Maturity Date**"), at which time Borrower shall pay to the Lender an amount equal to all outstanding principal, plus all accrued and unpaid interest and any other outstanding fees and expenses due and payable under the Loan Documents.

3. Borrower acknowledges that as of the date of this Amendment, the current "**Applicable Margin**," as defined within the Note, is 275 basis points per annum. This Amendment does not contain any revisions to the current definition of Applicable Margin.

4. All references to the principal amount of the Note, and the Loan amount, set forth within the Loan Agreement are hereby amended and restated to mean $15,000,000.00, including without limitation the following: (i) the description of the Loan in Section 1.1 of the Loan Agreement; and (ii) the definition of "**Note**" set forth within Section 9.1 of the Loan Agreement.

5. Section 1.7 of the Loan Agreement is hereby amended and restated as follows:

1.7 Increase of Availability Under Note. Provided that no Default or Event of Default under the Note exists or is threatened, the Borrower, commencing October 1, 2020, may from time to time request in writing that the Lender increase the principal amount available under the Note by an aggregate principal amount of up to an additional $5,000,000.00; provided that the Lender in the exercise of its sole discretion shall determine whether it will or will not fund any requested increase. In connection with any request by the Borrower for an increase, the following shall apply:

a. each approved increase must be in a minimum amount of no less than $1,000,000.00;

b. no request for an increase shall be delivered to Lender less than ninety (90) days prior to the Maturity Date;

c. the Borrower's request to the Lender for an increase shall be made in writing at least thirty (30) Business Days prior to the date the Borrower desires the requested increase to be funded and in connection with any such written request the Borrower shall submit:

i. the purpose for the increase,

ii. Borrower's calculations, including pro-forma calculations, establishing to Lender's satisfaction that none of the financial covenants set forth in the Loan Documents have been violated, nor will such be violated immediately after any approved funding, and

iii. Borrower's certification that all representations and warranties contained in the Loan Documents are true and correct as of the date of the request, and that no Default or Events of Default under the Loan Documents exist or are threatened.

The Lender shall review the request by Borrower for an increase in funding, and the Lender, in the exercise of its sole discretion, shall determine whether to approve any request. In the event the Lender elects to fund any requested increase, Borrower shall:

(w) cause the Lender to receive, at Borrower's expense, satisfactory evidence that the lien and security interest against the Collateral remains a first perfected security interest in favor of Lender, subject to no encumbrance objectionable to Lender;

(x) cause the Lender to receive all loan documentation required by Lender to evidence the increase, including without limitation, such loan documentation as required to insure that all guaranties and security agreements include the increase;

(y) pay to Lender all costs and expenses incurred by Lender in connection with the increase, including, without limitation, indebtedness tax, UCC filing costs, and attorney fees; and

(z) pay to Lender a loan fee equal to ten (10) basis points of the amount by which the Note is increased.

6. Section 6.11 of the Loan Agreement is hereby amended and restated as follows:

6.11 Dividends and Repurchase or Redemption of Stock. Borrower shall not be permitted to pay dividends or to repurchase or redeem shares of its stock or that of any Subsidiary except as follows: (i) Borrower may pay dividends and/or repurchase or redeem such stock in an aggregate amount not to exceed $4,000,000 from October 1, 2020 to the Maturity Date; and (ii) shares net settled for restricted share vesting up to $300,000 annually shall not count towards the limitation set forth in item (i).

7. Section 7.5 of the Loan Agreement is hereby amended and restated as follows:
7.6 Liquidity Cure. For a fifteen (15) day period after the occurrence of an Event of Default under Section 6.7 hereof (such Event of Default being deemed to have occurred on the date on which the Compliance Certificate for such period is required to be delivered pursuant to Section 5.1(c) hereof), Borrower may cure such Event of Default by depositing and maintaining on account with Lender a cash amount equal to all outstanding Indebtedness hereunder. Borrower may only exercise the liquidity cure described herein twice during the period from October 1, 2020 to the Maturity Date.

8. The definition of "**EBITDA**" set forth within Section 9.1 of the Loan Agreement is hereby amended to add the following sentence to the end of such definition: For purposes of calculating EBITDA, EBITDA shall only include EBITDA arising from a permitted Acquisition if Lender is provided with a quality of earnings report related to any such Acquisition reasonably acceptable to Lender.

9. The definition of "**LIBOR**" set forth within Section 9.1 of the Loan Agreement is hereby amended to add the following sentence to the end of such definition: Notwithstanding anything herein to the contrary, in no event shall LIBOR be less than 0.90% per annum.

10. The definition of "**Maturity Date**" set forth within Section 9.1 of the Loan Agreement is hereby amended and restated to mean October 1, 2022.

11. As a condition to the effectiveness of this Amendment, Borrower agrees to pay all fees and expenses set forth in the Closing Statement executed in connection with this Amendment.

12. The Note and Loan Agreement are not amended in any other respect.

13. Borrower reaffirms the terms and provisions of the Loan Documents and agrees that such terms and provisions are valid and binding, enforceable in accordance with its terms and provisions, subject to no defense, counterclaim, or objection.

[signatures commence on following page]

ENTERED INTO as of the date first written above.

**BORROWER:**

CUMBERLAND PHARMACEUTICALS INC.

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

**LENDER:**

PINNACLE BANK

By: */s/ Tim Bewley*
Tim Bewley, Senior Vice Presiden

[Signature Page to Second Amendment to Revolving Credit Loan Note and
Third Amendment to Revolving Credit Loan Agreement]

**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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
c. 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
d. 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 13, 2020 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, Michael Bonner, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
c. 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
d. 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 13, 2020 By: /s/ Michael Bonner
Michael Bonner
Chief Financial Officer

**Exhibit 32.1**

**CERTIFICATION OF CHIEF EXECUTIVE 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, 2020 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 Michael Bonner, 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 13, 2020

/s/ Michael Bonner
Michael Bonner
Chief Financial Officer
November 13, 2020