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 June 30, 2022

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)

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

Class	Trading Symbol	Name of exchange on which registered
Common stock, no par value	CPIX	Nasdaq Global Select Market

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, a 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.

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 the 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: 14,661,937 shares of common stock as of August 8, 2022.

CUMBERLAND PHARMACEUTICALS INC.
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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

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

	June 30, 2022	December 31, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	$ 18,216,565	$ 27,040,816
Accounts receivable, net	13,276,009	6,877,346
Inventories	9,420,459	8,429,882
Prepaid and other current assets	2,835,465	3,339,969
Total current assets	43,748,498	45,688,013
Non-current inventories	10,374,054	9,048,567
Property and equipment, net	457,490	442,635
Intangible assets, net	32,975,117	23,954,475
Goodwill	1,932,876	882,000
Operating lease right-of-use assets	493,102	1,024,200
Other assets	2,536,500	3,419,908
Total assets	$ 92,517,637	$ 84,459,798
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 10,591,585	$ 9,640,980
Operating lease current liabilities	512,324	969,677
Other current liabilities	13,148,060	8,668,303
Total current liabilities	24,251,969	19,278,960
Revolving line of credit	19,000,000	15,000,000
Operating lease noncurrent liabilities	—	90,016
Other long-term liabilities	10,061,376	7,488,844
Total liabilities	53,313,345	41,857,820
Commitments and contingencies		
Equity:		
Shareholders’ equity:		
Common stock—no par value; 100,000,000 shares authorized; 14,649,693 and 14,742,754 shares issued and outstanding as of June 30, 2022 and December 31, 2021 , respectively	47,822,319	48,452,906
Retained earnings (deficit)	(8,359,473)	(5,638,600)
Total shareholders’ equity	39,462,846	42,814,306
Noncontrolling interests	(258,554)	(212,328)
Total equity	39,204,292	42,601,978
Total liabilities and equity	$ 92,517,637	$ 84,459,798

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Net revenues	$ 10,299,152	$ 9,055,483	$ 21,474,197	$ 19,592,642
Costs and expenses:				
Cost of products sold	2,031,884	1,740,649	4,243,769	4,157,978
Selling and marketing	4,556,685	4,121,817	9,171,114	7,909,157
Research and development	1,823,693	1,360,398	3,568,829	2,617,765
General and administrative	2,203,975	2,097,130	4,506,324	4,327,639
Amortization	1,529,453	1,171,218	3,122,698	2,340,132
Total costs and expenses	12,145,690	10,491,212	24,612,734	21,352,671
Operating income (loss)	(1,846,538)	(1,435,729)	(3,138,537)	(1,760,029)
Interest income	15,066	6,591	31,107	12,017
Other income	—	2,187,140	—	2,187,140
Other income - gain on insurance proceeds	611,330	—	611,330	—
Interest expense	(137,624)	(25,859)	(257,199)	(50,276)
Income (loss) from continuing operations before income taxes	(1,357,766)	732,143	(2,753,299)	388,852
Income tax (expense) benefit	(6,900)	(7,459)	(13,800)	(14,917)
Net income (loss) from continuing operations	(1,364,666)	724,684	(2,767,099)	373,935
Discontinued operations	—	498,807	—	994,217
Net income (loss)	(1,364,666)	1,223,491	(2,767,099)	1,368,152
Net loss at subsidiary attributable to noncontrolling interests	29,046	5,069	46,226	27,236
Net income (loss) attributable to common shareholders	$ (1,335,620)	$ 1,228,560	$ (2,720,873)	$ 1,395,388
Earnings (loss) per share attributable to common shareholders				
- Continuing operations - basic	$ (0.09)	$ 0.05	$ (0.19)	$ 0.02
- Discontinued operations - basic	—	0.03	—	0.07
	$ (0.09)	$ 0.08	$ (0.19)	$ 0.09
- Continuing operations - diluted	$ (0.09)	$ 0.05	$ (0.19)	$ 0.02
- Discontinued operations - diluted	—	0.03	—	0.07
	$ (0.09)	$ 0.08	$ (0.19)	$ 0.09
Weighted-average shares outstanding				
- basic	14,688,505	14,976,064	14,689,798	14,970,241
- diluted	14,688,505	15,109,246	14,689,798	15,171,589

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Six months ended June 30, 2022	Six months ended June 30, 2021
Cash flows from operating activities:		
Net income (loss)	$ (2,767,099)	$ 1,368,152
Discontinued operations	—	994,217
Net income (loss) from continuing operations	(2,767,099)	373,935
Adjustments to reconcile net income (loss) from continuing operations to net cash provided by operating activities:		
Depreciation and amortization expense	3,272,085	2,455,576
Share-based compensation	132,148	354,914
Decrease in non-cash contingent consideration	(68,334)	(180,110)
Decrease (increase) in cash surrender value of life insurance policies over premiums paid	598,355	(226,897)
Gain on receivable of life insurance policy proceeds	(611,330)	—
Increase in noncash interest expense	4,791	27,666
Gain on forgiveness of debt	—	(2,187,140)
Net changes in assets and liabilities affecting operating activities:		
Accounts receivable	(5,527,690)	3,230,220
Inventories	2,949,443	2,309,914
Other current assets and other assets	1,227,030	866,987
Accounts payable and other current liabilities	4,658,782	(3,008,323)
Other long-term liabilities	(1,688,143)	(526,189)
Net cash provided by operating activities from continuing operations	2,180,038	3,490,553
Discontinued operations	—	994,217
Net cash provided by operating activities	2,180,038	4,484,770
Cash flows from investing activities:		
Additions to property and equipment	(164,241)	(34,531)
Note receivable investment funding	—	(200,000)
Cash paid for acquisitions	(13,500,000)	—
Additions to intangible assets	(50,248)	(132,323)
Net cash used in investing activities	(13,714,489)	(366,854)
Cash flows from financing activities:		
Borrowings on line of credit	39,000,000	29,000,000
Repayments on line of credit	(35,000,000)	(30,000,000)
Cash payment of contingent consideration	(501,505)	(1,423,586)
Repurchase of common shares	(788,295)	(777,664)
Net cash provided by (used in) financing activities	2,710,200	(3,201,250)
Net increase (decrease) in cash and cash equivalents	(8,824,251)	916,666
Cash and cash equivalents at beginning of period	$ 27,040,816	$ 24,753,796
Cash and cash equivalents at end of period	$ 18,216,565	$ 25,670,462

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

	Common stock				Retained earnings (deficit)		Noncontrolling interests		Total equity
	Shares		Amount						
Balance, December 31, 2020	14,988,429	$	49,121,523	$	(2,131,013)	$	(117,116)	$	46,873,394
Share-based compensation	187,759		162,960		—		—		162,960
Repurchase of common shares	(91,724)		(303,088)		—		—		(303,088)
Net income (loss)	—		—		166,828		(22,167)		144,661
Balance, March 31, 2021	15,084,464	$	48,981,395	$	(1,964,185)	$	(139,283)	$	46,877,927
Balance, March 31, 2021	15,084,464	$	48,981,395	$	(1,964,185)	$	(139,283)	$	46,877,927
Share-based compensation	—		191,954		—		—		191,954
Repurchase of common shares	(158,405)		(484,965)		—		—		(484,965)
Net income (loss)	—		—		1,228,560		(5,069)		1,223,491
Balance, June 30, 2021	14,926,059	$	48,688,384	$	(735,625)	$	(144,352)	$	47,808,407

	Common stock				Retained earnings (deficit)		Noncontrolling interests		Total equity
	Shares		Amount						
Balance, December 31, 2021	14,742,754	$	48,452,906	$	(5,638,600)	$	(212,328)	$	42,601,978
Share-based compensation	162,155		159,901		—		—		159,901
Repurchase of common shares	(174,149)		(566,043)		—		—		(566,043)
Net income (loss)	—		—		(1,385,253)		(17,180)		(1,402,433)
Balance, March 31, 2022	14,730,760	$	48,046,764	$	(7,023,853)	$	(229,508)	$	40,793,403
Balance, March 31, 2022	14,730,760	$	48,046,764	$	(7,023,853)	$	(229,508)	$	40,793,403
Share-based compensation	2,250		(27,753)		—		—		(27,753)
Repurchase of common shares	(83,317)		(196,692)		—		—		(196,692)
Net income (loss)	—		—		(1,335,620)		(29,046)		(1,364,666)
Balance, June 30, 2022	14,649,693	$	47,822,319	$	(8,359,473)	$	(258,554)	$	39,204,292

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 pharmaceutical products. The Company's primary target markets are hospital acute care, oncology, gastroenterology and rheumatology. These medical specialties are characterized by relatively concentrated prescriber bases that the Company believes can be served 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. The Company promotes its approved products through its hospital, oncology and field sales forces in the United States. We are continuing to build a network of international partners to register and provide our medicines to patients in their countries.

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 hospital, field and oncology sales teams and 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, 2021, 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, 2021 (the “2021 Annual Report on Form 10-K”). The results of operations for the three and six months ended June 30, 2022, 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 Ethyol and Totect meets the accounting criteria to be reported as discontinued operations and the discontinued operating results have been presented in the financial statements and footnotes to reflect the discontinued status of Ethyol and Totect. Refer to Note 10, for additional information.

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 its 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.

Throughout the pandemic, Cumberland has faced the same challenges affecting other companies that rely on hospital admissions and patient visits to drive revenue. Our clinical studies were impacted as fewer patients sought elective surgeries and our access to medical facilities was substantially limited. During 2020, 2021 and the six months ended June 30, 2022, we carefully monitored our supply chain, including the flow of raw materials into the plants that manufacture our products as well as the batches of finished product emerging from those facilities. Several of our brands were negatively impacted by the lockdowns and postponement of physician office visits and elective procedures. However, we are fortunate to have a diversified product portfolio, with other brands delivering a strong performance during the pandemic.

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 its 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 Accounting Pronouncements - Not Yet Adopted

In June 2016, the Financial Accounting Standards Board ("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 elect 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 and (3) valuation of contingent consideration liabilities 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) EARNINGS (LOSS) PER SHARE

The following table reconciles the numerator and denominator used to calculate diluted earnings (loss) per share for the six months ended June 30, 2022 and 2021:

	Three months ended June 30,	
	2022	2021
Numerator:		
Net income (loss) from continuing operations	$ (1,364,666)	$ 724,684
Discontinued operations	—	498,807
Net income (loss)	(1,364,666)	1,223,491
Net loss at subsidiary attributable to noncontrolling interest	29,046	5,069
Net income (loss) attributable to common shareholders	$ (1,335,620)	$ 1,228,560
Denominator:		
Weighted-average shares outstanding – basic	14,688,505	14,976,064
Dilutive effect of other securities	—	133,182
Weighted-average shares outstanding – diluted	14,688,505	15,109,246

	Six months ended June 30,	
	2022	2021
Numerator:		
Net income (loss) from continuing operations	$ (2,767,099)	$ 373,935
Discontinued operations	—	994,217
Net income (loss)	(2,767,099)	1,368,152
Net loss at subsidiary attributable to noncontrolling interest	46,226	27,236
Net income (loss) attributable to common shareholders	$ (2,720,873)	$ 1,395,388
Denominator:		
Weighted-average shares outstanding – basic	14,689,798	14,970,241
Dilutive effect of other securities	—	201,348
Weighted-average shares outstanding – diluted	14,689,798	15,171,589

As of June 30, 2022 and 2021, restricted stock awards and options to purchase 289,975 and 198,300 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.

(3) REVENUES

Product Revenues

The Company accounts for revenues from contracts with customers under ASC 606, which became effective January 1, 2018.

The Company's net revenues consisted of the following for the three and six months ended June 30, 2022 and 2021:

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Products:				
Kristalose	$ 3,570,272	$ 5,275,065	$ 7,515,368	$ 8,269,443
Sancuso	3,398,548	—	6,795,758	—
Vibativ	1,596,821	1,844,936	4,098,255	6,897,179
Caldolor	1,193,916	938,328	2,153,546	2,477,824
Vaprisol	(134,621)	399,952	(251,623)	1,534,216
Acetadote	126,789	152,781	237,884	269,972
Omeclamox-Pak	(26,412)	(24,109)	(3,676)	(474,371)
RediTrex	93,676	7,382	152,904	(24,870)
Other revenue	480,163	461,148	775,781	643,249
Total net revenues	$ 10,299,152	$ 9,055,483	$ 21,474,197	$ 19,592,642

The Omeclamox-Pak revenue for the second quarter of 2022 and 2021 was the result of Cumberland currently being out of commercial inventory of this product. The packager for our Omeclamox-Pak product encountered financial difficulties due to the impact of COVID-19. They are under new management and are in the process of a reorganization. Discussions with the packager are ongoing. In the second quarter of 2022, the amounts noted were normal adjustments by channel partners. Net revenue was impacted by product return adjustments.

With regard to Vaprisol, we are in the process of transitioning to a new manufacturer, who was issued an FDA Form 483 in the second quarter of 2022. Once these 483 related issues are satisfactorily resolved by the manufacturing plant, we will then resubmit our application to the FDA for approval. Net revenue was impacted by product return adjustments.

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.

During the three and six months ended June 30, 2022, we recorded $0.3 million and $0.5 million, respectively, for milestone and international licensee payments as part of other revenue.

Other revenues also include funding from federal grant programs including those secured from the FDA and from those secured by Cumberland Emerging Technologies Inc. ("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 federal grant programs totaled approximately $0.04 million and $0.3 million for the three months ended June 30, 2022 and 2021, and approximately $0.08 million and $0.3 million for the six months ended June 30, 2022 and 2021, respectively.

(4) 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 continually 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 June 30, 2022 and December 31, 2021, the Company had recognized and maintained cumulative net realizable value charges for potential obsolescence and discontinuance losses of approximately $1.0 million and $1.4 million, respectively.

The Company is responsible for the purchase of the active pharmaceutical ingredient ("API") for Kristalose and maintains the inventory at third-party packagers. As that API is consumed in production, the value of the API is transferred from raw materials to finished goods. API for the Company's Vaprisol brand is also included in the raw materials inventory at June 30, 2022 and December 31, 2021. Consigned inventory represents Authorized Generic inventory stored with our partner until shipment.

As part of the Vibativ acquisition, Cumberland acquired API and work in process inventories of $15.6 million that were all initially classified as non-current inventories at the date of acquisition. For the Sancuso acquisition, Cumberland acquired $3.0 million of work in progress non-current inventory. At June 30, 2022 and December 31, 2021, total non-current inventory, including Vibativ, Sancuso and our clinical trial drug ifetroban, was $10.4 million and $9.0 million, respectively. The Company had no Vibativ finished goods included in non-current inventory at June 30, 2022, and $0.5 million included at December 31, 2021. The Company also has obtained $0.2 million and $0.4 million of finished goods in non-current inventory for API related to its ifetroban clinical initiatives at June 30, 2022 and December 31, 2021, respectively.

At June 30, 2022 and December 31, 2021 the Company's net inventories consisted of the following:

	June 30, 2022	December 31, 2021
Raw materials and work in process	$ 12,773,497	$ 12,374,983
Consigned inventory	154,266	164,378
Finished goods	6,866,750	4,939,088
Total inventories	19,794,513	17,478,449
less non-current inventories	(10,374,054)	(9,048,567)
Total inventories classified as current	$ 9,420,459	$ 8,429,882

(5) 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 Company's 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 June 30, 2022 is 0.5 years.

On November 15, 2021, Cumberland entered into a lease, pursuant to which the Company will lease approximately 16,631 rentable square feet of space (the "Leased Premise") at the new development Broadwest located in Nashville, Tennessee with 1600 West End Avenue Partners, LLC. The Leased Premise will serve as the Company's new corporate headquarters. The initial term of the Lease is one hundred fifty-seven (157) months, with two consecutive options to renew for a period of five years each, and will commence on the earlier of November 1, 2022, the date on which Cumberland takes occupancy of the Leased Premise, or the date on which Cumberland receives a temporary or permanent certificate of occupancy for the Leased Premise. Cumberland received approval for its building permit and began the construction on the Leased Premise in June 2022.

Lease Position

At June 30, 2022 and December 31, 2021, the Company's lease assets and liabilities were as follows:

Right-of-Use Assets	**June 30, 2022**	**December 31, 2021**
Operating lease right-of-use assets	$ 493,102	$ 1,024,200

Lease Liabilities	**June 30, 2022**	**December 31, 2021**
Operating lease current liabilities	$ 512,324	$ 969,677
Operating lease noncurrent liabilities	—	90,016
Total	$ 512,324	$ 1,059,693

As of June 30, 2022, cumulative future minimum sublease income under non-cancelable operating subleases totals approximately $0.3 million and will be paid through the leases ending in October 2022 and April 2023. Excluding the Broadwest agreement, future minimum lease payments under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) are as follows:

Maturity of Lease Liabilities at June 30, 2022	**Operating Leases**
2022	441,014
2023	92,477
Total lease payments	533,491
Less: Interest	21,167
Present value of lease liabilities	$ 512,324

Rent expense is recognized over the expected term of the lease, including renewal option periods, if applicable, on a straight-line basis as a component of general and administrative expense. Rent expense and sublease income were as follows:

	Six months ended June 30,	
	2022	**2021**
Rent expense	$ 574,071	$ 605,130
Sublease income	$ 296,237	$ 348,411

(6) 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 six months ended June 30, 2022 and June 30, 2021, the Company repurchased 257,466 shares and 250,129 shares of common stock, respectively, for approximately $0.8 million each period. At June 30, 2022, approximately $4.0 million of common shares was left to repurchase under this program.

Share purchases and sales

During the Company's March 2022 trading window, several members of Cumberland's Board of Directors entered into share purchase agreements of the Company's stock pursuant to Rule 10b5-1 of the Securities Exchange Act of 1934. These purchases are designed to increase ownership in the Company by the members of the Board. These purchases began in April 2022.

Share Sales

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. It also included an At the Market ("ATM") feature that allowed the Company to sell common shares at market prices, along with an agreement with B. Riley FBR Inc. to support such a placement of shares. The Company filed an updated Form S-3 with the SEC in December 2020, which was declared effective in January 2021. On December 27, 2021, the Company filed a related prospectus supplement in connection with the sale and issuance of shares having an aggregate gross sales price of up to $19 million. The Company intends to continue an ATM feature through B. Riley FBR, Inc. that would allow the Company to issue shares of its common stock. The Company did not issue any shares under an ATM during the six months ended June 30, 2022 or June 30, 2021.

Restricted Share Grants and Incentive Stock Options

During the six months ended June 30, 2022 and June 30, 2021, the Company issued 65,225 shares and 36,850 shares of restricted stock to employees, advisors and directors, respectively. Restricted stock issued to employees and advisors 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. During the six months ended June 30, 2022 and 2021, the Company also issued 169,800 and 173,350 incentive stock options, respectively, to employees that cliff-vest on the fourth anniversary of the date of grant, that are set to expire in 2032 and 2031. Stock compensation expense is presented as a component of general and administrative expense in the condensed consolidated statements of operations. In the second quarter of 2022, we recorded a credit of $0.1 million to share-based compensation related to the forfeiture of unvested restricted stock awards.

Debt Agreement

On June 30, 2022, the Company entered into the Eighth Amendment to the Revolving Credit Loan Agreement with Pinnacle Bank (the "Pinnacle Agreement") permitting the Maximum Funded Debt Ratio to be calculated on a rolling four-quarter basis to be no more than 3.00 to 1.00 for the second and third quarters of 2022 and 2.50 to 1.00 for each quarter thereafter. For the quarter ended June 30, 2022, we slightly exceeded the Maximum Funded Debt Ratio, but we relied on our provision in the latest amendment to address it.

On March 31, 2022, the Company and Pinnacle Bank entered into a Seventh Amendment to the Revolving Credit Loan Agreement to revise and update the Maximum Funded Debt Ratio financial covenant and to delete from the Pinnacle Agreement the Funded Debt to Tangible Capital Ratio financial covenant. These changes were made to more appropriately reflect the impact from the Sancuso acquisition.

On December 31, 2021, the Company and Pinnacle Bank entered into the Fifth Amendment to the Revolving Credit Note and the Sixth Amendment to the Revolving Credit Loan Agreement in order to increase the principal amount of the Note from $15 million to $20 million.

On October 28, 2021, the Company and Pinnacle Bank entered into a Fourth Amendment to the Revolving Credit Note and Fifth Amendment ("Fifth Amendment") to the Revolving Credit Loan Agreement to renew the Revolving Credit Loan.

The original Pinnacle Agreement was dated July 2017. Beginning on August 14, 2018, and continuing until October 7, 2020, the Company and Pinnacle Bank entered into a series of amendments to extend and update the Revolving Credit Note and Revolving Credit Agreement. The Fifth Amendment extends the maturity date three years through October 1, 2024.

The interest rate on the Pinnacle Agreement is based on LIBOR plus an interest rate spread. The current pricing under 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 3.87% at June 30, 2022. 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. The parties have agreed on a process to determine a new interest rate benchmark at the point the LIBOR rate is expected to be discontinued over the next 12 to 24 months.

As of June 30, 2022 and December 31, 2021, the Company had $19.0 million and $15.0 million, respectively, in borrowings outstanding under its revolving credit facility.

Borrowings under the line of credit are collateralized by substantially all of our assets.

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 a $0.2 million convertible note, which was funded during the first quarter of 2021. The joint venture will seek additional future capital from additional investors and has entered into exclusive option agreements to license product candidates from both Cumberland Pharmaceuticals Inc. and Cumberland Emerging Technologies Inc.

(7) INCOME TAXES

As of June 30, 2022, the Company has approximately $56.6 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 2022 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.

(8) OTHER INCOME

The Company realized a $0.6 million gain in the second quarter of 2022 from insurance proceeds for a company owned executive life insurance policy.

(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 received related to RediTrex, 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 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% of on-going net sales of the product after the $2.5 million threshold is met. The future royalty payments were required to be recognized at their acquisition-date fair value as a contingent consideration liability, as part of the contingent consideration transferred in the business combination. Cumberland prepared the valuations of the contingent consideration liability utilizing significant unobservable inputs. As a result, the valuation is classified as Level 3 fair value measurement.

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 Theravance quarterly.

Balance at December 31, 2021	$	6,515,627
Cash payment of royalty during the period		(501,505)
Change in fair value of contingent consideration included in operating expenses		(294,119)
Contingent consideration earned and accrued in operating expenses		276,350
Balance at June 30, 2022	$	5,996,353

The contingent consideration liability of $6.0 million was accounted for as $2.4 million of other current liabilities and $3.6 million of other long-term liabilities on the condensed consolidated balance sheet as of June 30, 2022.

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 injectable 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. During December 2020, Cumberland introduced RediTrex and the launch that took place in late 2021 will result in a $1.0 million milestone payment due to Nordic. This milestone payment is included as a current liability at June 30, 2022.

Effective July 12, 2022, the Company entered into an amendment to our agreement with Nordic for it to assume responsibility for RediTrex marketing authorization in the U.S. and the opportunity to commercialize the product in the U.S. after March 31, 2023. Cumberland will continue to distribute and support the product until then. Nordic will return the 180,000 restricted Cumberland shares we previously issued to them, refund to Cumberland the milestone payment of $1 million we made associated with the brand's U.S. approval and issue a credit note in favor of the Company in the amount of $1 million for the unpaid milestone payment due from us for launch of the product line. The companies will cooperate on any transition and Cumberland will receive a long-term royalty on any Nordic sales of the product.

Cumberland has approximately $2.5 million in net intangible assets related to RediTrex at June 30, 2022.

Sancuso Acquisition

On January 3, 2022, Cumberland acquired the U.S. rights to the FDA-approved oncology-supportive care medicine Sancuso from Kyowa Kirin, Inc., the U.S. affiliate of Japan-based Kyowa Kirin Co., Ltd.

Sancuso is the first and only FDA-approved prescription patch for the prevention of nausea and vomiting in patients receiving certain types of chemotherapy treatment. The active drug in Sancuso, granisetron, slowly dissolves in the thin layer of adhesive that sticks to the patient's skin and is released into their bloodstream over several days, working continuously to prevent chemotherapy-induced nausea and vomiting ("CINV"). It is applied 24 to 48 hours before receiving chemotherapy and can prevent CINV for up to five consecutive days. Alternative oral treatments must be taken several times (day and night) to deliver the same therapeutic doses.

Cumberland acquired U.S. rights to Sancuso and assumed full commercial responsibility for the product in the U.S. – including its marketing, promotion, distribution, manufacturing and medical support activities.

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 $13.5 million at the closing of the transaction. The Agreement calls for milestone payments of up to $3.5 million based on the attainment of various approvals and sales performance. The Company believes that $1.5 million of the milestone payments will be earned and paid.

In addition, Cumberland has agreed to pay a royalty of up to 10% of on-going net sales of the product. The future royalty payments were required to be recognized at their acquisition-date fair value as a contingent consideration liability, as part of the contingent consideration transferred in the business combination. Cumberland has prepared a preliminary valuation of the contingent consideration liability utilizing significant unobservable inputs. As a result, the valuation is classified as Level 3 fair value measurement.

The acquisition was funded by cash and the Company's revolving credit facility. The Company is working with an outside consultant firm to finalize the Sancuso valuation of the transaction which will be completed later this year. The estimates of fair value for the more significant assets and liabilities assumed were as follows: prepaid expenses $0.3 million, inventory $5.2 million, goodwill $1.0 million, intangible assets $12.1 million, milestone payable $1.2 million and contingent liability $3.9 million.

The following table presents the changes in the fair value of the contingent consideration liability that is remeasured on a recurring basis.

Balance at January 3, 2022	$	3,946,716
Cash payment of royalty during the period		—
Change in fair value of contingent consideration included in operating expenses		362,453
Contingent consideration earned and accrued in operating expenses		373,973
Balance at June 30, 2022	$	4,683,142

The contingent consideration liability earned and accrued in operating expenses is paid to Kyowa Kirin quarterly. The contingent consideration liability of $4.7 million was accounted for as $1.9 million of current liabilities and $2.8 million of other long-term liabilities on the condensed consolidated balance sheet as of June 30, 2022.

Ethyol and Totect

In 2016, Cumberland entered into an agreement with Clinigen for the rights and responsibilities associated with the commercialization of Ethyol in the United States. In 2017, the Company entered into another agreement with Clinigen for the rights and responsibilities associated with the commercialization of Totect in the United States.

Early in 2019, Cumberland announced a strategic review of the Company's brands, capabilities, and international partners. This review followed an accelerated business development initiative, which resulted in a series of transactions. During May 2019, Cumberland entered into the Dissolution Agreement with Clinigen in which the Company returned the exclusive rights to commercialize Ethyol and Totect in the United States to Clinigen. Under the final terms of the Dissolution Agreement, Cumberland was no longer responsible for the distribution, marketing and promotion of either Ethyol or Totect 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 received $5 million in financial consideration paid in quarterly installments over the two-years following the transition date. Cumberland recorded the first four quarterly installments totaling $3.0 million during 2020 and the final four installments totaling $2.0 million during 2021, as discontinued operations.

The exit from Ethyol and Totect met the accounting criteria to be reported as discontinued operations. December 31, 2019, as the transition date, was the final day Cumberland was responsible for the products. Cumberland was responsible for the products through December 31, 2019 and beginning on January 1, 2020, the products' rights transitioned back to Clinigen. As a result, January 1, 2020, was the first day of discontinued operations for the Ethyol and Totect products.

The dissolution payments from Clinigen are reflected as revenue from discontinued operations. The Company did not incur expenses associated with these payments from Clinigen.

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Revenues	$ —	$ 498,807	$ —	$ 994,217
Income from discontinued operations	$ —	$ 498,807	$ —	$ 994,217

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 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, 2021, and our 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 pharmaceutical products. We are dedicated to providing innovative products that improve the quality of care for patients and address poorly met medical needs.

Our primary target sectors are hospital acute care, oncology, gastroenterology and rheumatology. These medical specialties are characterized by relatively concentrated prescriber bases that we believe can be served effectively by small, targeted sales forces. We promote our approved products through our hospital, oncology and field sales forces in the United States. We have also established partnerships in Puerto Rico and the Middle East for our Vibativ® product and are continuing to build a network of international partners to register and provide 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*) oral, a prescription laxative, for the treatment of constipation;
- **Omeclamox®-Pak**, (*omeprazole, clarithromycin, amoxicillin*) oral, for the treatment of Helicobacter pylori (*H. pylori*) infection and related duodenal ulcer disease;
- **RediTrex®** (*methotrexate*) injection, for the treatment of active rheumatoid, juvenile idiopathic and severe psoriatic arthritis, as well as disabling psoriasis;
- **Sancuso®** (*granisetron)* transdermal, for the prevention of nausea and vomiting in patients receiving certain types of chemotherapy treatment;
- **Vaprisol®** (*conivaptan*) injection, to raise serum sodium levels in hospitalized patients with euvolemic and hypervolemic hyponatremia; and
- **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.

In addition to these commercial brands, we have Phase II clinical programs underway evaluating our ifetroban product candidates for patients with cardiomyopathy associated with 1) Duchenne Muscular Dystrophy ("DMD"), a fatal, genetic neuromuscular disease; 2) Systemic Sclerosis ("SSc") or scleroderma, a debilitating autoimmune disorder characterized by fibrosis of the skin and internal organs; and 3) Aspirin-Exacerbated Respiratory Disease ("AERD"), a severe form of asthma.

Cumberland has built core competencies in the acquisition, development and commercialization of pharmaceutical products in the U.S. - and we believe we can leverage this existing infrastructure to support our continued growth both domestically and internationally. Our management team consists of pharmaceutical industry veterans with experience 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 our FDA submissions and staffs our medical call center. Our quality and manufacturing professionals oversee the manufacturing, release and shipment of our products. Our marketing and sales organization is responsible for our commercial activities, and we work closely with our distribution partners to ensure the availability and delivery of our products.

GROWTH STRATEGY

Cumberland's growth strategy involves maximizing the success of our existing brands while continuing to build a portfolio of differentiated products. We currently feature eight FDA products approved for sale in the United States. We are also continuing to explore international partnerships to bring our medicines to patients in other countries. Additionally, we look for opportunities to expand our products into additional patient populations through clinical trials, new presentations and our support of select, investigator-initiated studies. We actively pursue opportunities to acquire additional marketed products, as well as late-stage development product candidates in our target medical specialties. Our clinical team is developing a pipeline of new product candidates largely to address poorly met medical needs.

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 support the progress of promising new product candidates, which Cumberland could further develop and commercialize.

Specifically, we are seeking long-term sustainable growth by:

- **Supporting and expanding 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. For example, we have secured pediatric approval of Acetadote and Caldolor and are expanding the labeling for both brands accordingly. We also recently further expanded the labeling for Caldolor to allow its use prior to surgery. We will continue to explore such opportunities to bring our products to new patient populations.

- **Selectively adding complementary brands.** In addition to our product development activities, we are also seeking to acquire products or 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 and Sancuso are examples of this strategy.

- **Progressing our clinical pipeline and incubating future product opportunities at CET.** We believe it is important to build a pipeline of innovative new product opportunities, as we are doing though our ifetroban Phase II development programs. We are also supplementing our acquisitions and late-stage development activities with early-stage drug development activities with CET.

- **Leveraging our infrastructure through co-promotion partnerships.** We believe that our commercial infrastructure can help drive prescription volume and product sales. We look for strategic partners that can complement our capabilities and enhance opportunities for our brands. For example, our co-promotion partnerships have allowed us to expand the support for Kristalose and Sancuso across the U.S.

- **Building an international contribution to our business.** We have established our own commercial capabilities, including three sales divisions, to cover the U.S. market for our products. We are also building a network of select international partners to register our products and make them available to patients in their countries. We will continue to develop and expand our network of international partners while supporting our partners' registration and commercialization efforts in their respective territories. The acquisition of Vibativ resulted in several new international partners and market opportunities.

- **Managing our operations with financial discipline.** We continually work to manage our expenses in line with our revenues to deliver cash flow from operations. We remain in a strong financial position, with favorable gross margins and a strong balance sheet.

RECENT DEVELOPMENTS

Sancuso Acquisition

In January 2022, Cumberland acquired the U.S. rights to the FDA-approved oncology-supportive care medicine Sancuso from Kyowa Kirin, Inc., the U.S. affiliate of Japan-based Kyowa Kirin Co., Ltd.

Sancuso is the first and only FDA-approved prescription patch for the prevention of nausea and vomiting in patients receiving certain types of chemotherapy treatment. The active drug in Sancuso, granisetron, slowly dissolves in the thin layer of adhesive that sticks to the patient's skin and is released into their bloodstream over several days, working continuously to prevent chemotherapy-induced nausea and vomiting ("CINV"). It is applied 24 to 48 hours before receiving chemotherapy and can prevent CINV for up to five consecutive days. Alternative oral treatments must be taken several times (day and night) to deliver the same therapeutic doses.

Cumberland acquired U.S. rights to Sancuso and assumed full commercial responsibility for the product in the U.S. – including its marketing, promotion, distribution, manufacturing and medical support activities. We largely completed the transition of these responsibilities from Kyowa Kirin to Cumberland during the second quarter of 2022.

Sancuso Promotion

In April 2022, we entered into an agreement with Verity Pharmaceuticals International Limited ("Verity") for the national co-promotion of Sancuso. Verity is a specialty pharmaceutical company that will utilize its established oncology commercial organization and customer network to co-promote Sancuso throughout the United States.

Verity will cover a majority of the U.S. market for an initial three-year term, with an option to extend for an additional two years. Verity and Cumberland will share in the incremental contribution margin resulting from Verity's efforts.

In July 2022, Verity launched their national co-promotion efforts in support of Sancuso.

Ifetroban Clinical Studies

We have been evaluating our ifetroban product candidate, a selective thromboxane-prostanoid receptor ("TPr") antagonist, in a series of clinical studies. It has been dosed in nearly 1,400 subjects and was found to be safe and well tolerated in healthy volunteers and various patient populations.

Cumberland is currently sponsoring three Phase II clinical programs to evaluate ifetroban in 1) Aspirin-Exacerbated Respiratory Disease, ("AERD") a severe form of asthma; 2) Systemic Sclerosis or scleroderma, a debilitating autoimmune disorder characterized by diffuse fibrosis of the skin and internal organs; and 3) patients with cardiomyopathy associated with Duchenne Muscular Dystrophy, a genetic neuromuscular disease that results in deterioration of the skeletal, heart and lung muscles.

We are awaiting results from the studies underway before deciding on the best development path for the registration of ifetroban.

We are also designing a fourth Phase II program to evaluate the use of ifetroban to treat patients with Progressive Fibrosing Interstitial Lung Diseases and we are currently preparing an application to the FDA to support the new program.

In addition to our Company-sponsored studies, Harvard clinical investigators have led a Phase II trial in patients with AERD. Their study is designed to understand the mechanism of ifetroban in those patients and therefore complements the work we have underway. Their work has been supported by a $5 million grant from the NIH. Patient enrollment in the study is now closed, and the data analysis is underway. We look forward to sharing the results of the study once we receive the study report from them in the coming months.

New Ifetroban Publication

In June 2022, the *American Journal of Respiratory and Critical Care Medicine* published preclinical studies that support the use of ifetroban as a promising therapeutic for patients with pulmonary fibrosis associated with lung disease.

Specifically, the researchers reported that ifetroban was used to block thromboxane receptor signaling in three preclinical models of lung fibrosis: bleomycin-induced lung fibrosis, Hermansky-Pudlak Syndrome mice and radiation-induced lung fibrosis. Ifetroban reduced pro-fibrotic signaling in the lungs and prevented lung fibrosis due to multiple causes (bleomycin, genetic, radiation).

Amendment to Revolving Credit Loan Agreement

On June 30, 2022, Cumberland entered into the eighth amendment to our revolving credit loan agreement with Pinnacle Bank permitting the Funded Debt Ratio to be calculated on a rolling four-quarter basis to be no more than 3.00 to 1.00 for the second and third quarters of 2022 and 2.50 to 1.00 for each quarter thereafter.

Nordic Pharma Arrangements

On July 12, 2022, we entered into an amendment to our agreement with Nordic Pharma (“Nordic”) that addresses the responsibilities and financial arrangements regarding our license to Nordic's methotrexate line of products for the U.S. (the “License”). Our line of prefilled methotrexate syringes, marketed under the brand name RediTrex® in the U.S., is covered by the License.

Based on the amendment, we are providing Nordic with the opportunity to assume responsibility for commercializing the methotrexate products in the U.S. after March 31, 2023. We will continue to distribute and support the RediTrex product line during a transition period until then. Following the return of the License, Nordic will provide us with a royalty on their future sales of the product through April 2035. The companies will continue to collaborate on any transition and ongoing commercialization of the product line.

Cumberland will transfer to Nordic the marketing authorization associated with the RediTrex product line.

Nordic will return the 180,000 shares we issued to them associated with the License and refund the $1 million we paid to them following the brand’s approval in the U.S. Nordic will also issue a credit note in favor of Cumberland in the amount of $1 million for the unpaid milestone payment due from us for our launch of the product line.

New Board Member

In July 2022, we were honored to welcome Martin Brown Jr. to Cumberland’s Board of Directors. His experience includes 10 years on the board of directors of Brown-Forman Corporation, a large American spirits and wine company whose shares are listed on the New York Stock Exchange. Additionally, he has served since 2018 on the board of directors of the parent company of Aegis Sciences Corporation, a federally certified health care laboratory headquartered in Nashville.

Mr. Brown is an attorney at Adams and Reese LLP. He has nearly 30 years of legal experience representing privately held businesses, counseling owners in complex business transactions, intellectual property licensing, international commerce, mergers and acquisitions, and estate planning. He has been listed since 2009 in the corporate law category of Best Lawyers®.

He has been an active board member for many community organizations, including the Land Trust for Tennessee, Nashville Public Radio, Montgomery Bell Academy, Nashville Public Television, Centerstone Mental Health Center, Cheekwood Estate and Gardens, and Tennessee chapter of the Nature Conservancy.

Mr. Brown brings significant legal, public company, health care and civic experience to our Board. We expect his contributions will be valuable in our efforts to acquire, develop and deliver innovative products to improve the quality of care for patients.

Board Special Committee

The Board has formed a Special Committee (the “Committee”) as an ad hoc committee of the Board of Directors to facilitate certain corporate development activities, including the review and evaluation of potential mergers, acquisitions, joint ventures, significant investments or divestitures of material assets. The Committee is composed solely of directors who meet the independence requirements of the NASDAQ Global Select Market. The Committee was activated so that the Company may properly consider and evaluate any corporate development opportunities that might arise as a result of the recent volatility in the financial markets associated with the biopharmaceutical industry.

Sustainability Report

In early August 2022, we announced the results of our 2021 Sustainability Report, outlining our activities pertaining to environmental, social and governance matters. As the largest biopharmaceutical company founded and headquartered in the Mid-South, we hold ourselves to the highest standards of ethical practices and understand the importance of recognizing and addressing our impact on our constituents, the community and the environment.

Highlights from the report include:

- We provided 2.43 million doses of our products for patients in 2021.
- We also safely disposed of over 6,200 pounds of expired or damaged products during the year.
- We had no products recalled, no Company marketed brands listed on the FDA's MedWatch Safety Alerts for Human Medical Products, no marketed Company product issues identified by FDA from their Adverse Event Reporting System and no clinical trials terminated due to failure to practice good clinical standards.

The 2021 Sustainability Report also highlights our investment in our employees through our continuing education programs, employee development initiatives and employee recognition awards. Cumberland's workforce is 44% women, and 15% of our employees are minorities.

State of Tennessee and Tennessee Valley Authority Grants

The State of Tennessee and the Tennessee Valley Authority have awarded Cumberland a total of $250,000 in grants to support the buildout of the new offices at 1600 West End Ave. and the relocation of the Company to this new headquarters. This new headquarters location keeps Cumberland near the Vanderbilt University Medical Center to enable our continued collaboration.

With our portfolio of FDA-approved drug brands, and a deep pipeline of new drugs under development, Cumberland is poised to attain significant milestones in the coming years. We believe this well-located, state-of-the-art new headquarters will play an important role in the Company's future success.

Omeclamox-Pak Supply Update

The packager for our Omeclamox-Pak product has been unable to provide us with supplies of the product, having encountered difficulties and therefore suspending operations during the pandemic. We are currently awaiting the facility's packaging to resume, while also exploring other alternatives to restart the product's packaging before we build new inventory and resupply the market.

Vaprisol Supply Update

We are transitioning to a new manufacturer for our Vaprisol product. During 2021, we shipped all remaining inventory of the product and notified the FDA that supplies of the product were then not currently available. We have transferred manufacturing to a new facility and await the submission and FDA approval for that plant before resuming shipments. During the second quarter of 2022, the new manufacturer was issued an FDA Form 483 following an inspection of their facility. The FDA notified us that our application to manufacture Vaprisol at the new facility would need to be resubmitted once those 483 issues are satisfactorily resolved. Our new manufacturing partner is working with the FDA to address those issues on a timely basis. Meanwhile, the Company plans to provide an interim supply of compounded product to the market while awaiting the needed facility approval.

Summary

Cumberland remains committed to our mission of providing innovative products that improve the quality of care for patients and address poorly met medical needs. We are working to fulfill this mission by building a portfolio of innovative and differentiated products through a multifaceted strategy that includes the development of new candidates as well as the acquisition of established brands. Our resulting, diversified product line has enabled us to weather external challenges while our team remains responsive to the evolving medical market. We are prepared for and look forward to future opportunities to carry out our mission throughout the remainder of the year.

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 2021 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. 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 and (3) valuation of contingent consideration liabilities associated with business combinations.

RESULTS OF OPERATIONS

Three months ended June 30, 2022 compared to the three months ended June 30, 2021

The following table presents the unaudited interim statements of operations for continuing operations for the three months ended June 30, 2022 and 2021:

	Three months ended June 30,		
	2022	2021	Change
Net revenues	$ 10,299,152	$ 9,055,483	$ 1,243,669
Costs and expenses:			
Cost of products sold	2,031,884	1,740,649	291,235
Selling and marketing	4,556,685	4,121,817	434,868
Research and development	1,823,693	1,360,398	463,295
General and administrative	2,203,975	2,097,130	106,845
Amortization	1,529,453	1,171,218	358,235
Total costs and expenses	12,145,690	10,491,212	1,654,478
Operating income (loss)	(1,846,538)	(1,435,729)	(410,809)
Interest income	15,066	6,591	8,475
Other income	—	2,187,140	(2,187,140)
Other income - gain on insurance proceeds	611,330	—	611,330
Interest expense	(137,624)	(25,859)	(111,765)
Income (loss) from continuing operations before income taxes	(1,357,766)	732,143	(2,089,909)
Income tax (expense) benefit	(6,900)	(7,459)	559
Net income (loss) from continuing operations	$ (1,364,666)	$ 724,684	$ (2,089,350)

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

	Three months ended June 30,		
	2022	2021	Change
Products:			
Kristalose	$ 3,570,272	$ 5,275,065	$ (1,704,793)
Sancuso	3,398,548	—	3,398,548
Vibativ	1,596,821	1,844,936	(248,115)
Caldolor	1,193,916	938,328	255,588
Vaprisol	(134,621)	399,952	(534,573)
Acetadote	126,789	152,781	(25,992)
Omeclamox-Pak	(26,412)	(24,109)	(2,303)
RediTrex	93,676	7,382	86,294
Other revenue	480,163	461,148	19,015
Total net revenues	$ 10,299,152	$ 9,055,483	$ 1,243,669

Net revenues. Net revenues for the three months ended June 30, 2022, were $10.3 million compared to $9.1 million for the three months ended June 30, 2021. As detailed in the table above, net revenue increased for two of our marketed products: Caldolor and RediTrex during the quarter. We also continued significant shipments of Sancuso which we launched earlier in the year.

Kristalose revenue of $3.6 million for the second quarter of 2022, represented a decrease of $1.7 million when compared to the prior year period. The decrease was primarily the result of timing of shipments to one of our co-promotion partners.

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 slight decrease in the branded product's revenue when compared to the prior year period.

Vaprisol revenue was $(0.1) million for the second quarter of 2022, a decrease of $0.5 million compared to the same period last year. This decrease is primarily due to the lack of inventory of the product, as we await FDA approval on a new manufacturer.

Caldolor revenue was $1.2 million for the second quarter of 2022, an increase of $0.3 million, or 27.2%, compared to the second quarter of 2021. The increase was the result of higher international shipments of the product.

Vibativ revenue was $1.6 million for the three months ended June 30, 2022, compared to $1.8 million for the same period last year. The decline was a result of increased purchases in 2021 associated in part with wholesaler stocking of our new packaged product.

Sancuso revenue was $3.4 million for the second quarter of 2022, which was $0.3 million higher than the second quarter of 2021 U.S. results reported by Kyowa Kirin, from whom Cumberland acquired the U.S. rights to Sancuso on January 3, 2022.

Omeclamox-Pak had no sales for the second quarter of 2022, as Cumberland is currently out of commercial inventory of this product. The packager for our Omeclamox-Pak product encountered financial difficulties, and currently is under new management and a reorganization. We are in discussions about the resumption of packaging the product. Net revenue for the three months ended June 30, 2022, was negatively impacted by various revenue adjustments.

Cost of products sold. Cost of products sold for the second quarter of 2022 and 2021 were $2.0 million and $1.7 million, respectively. Cost of products sold, as a percentage of net revenues, were 19.7% during the three months ended June 30, 2022, similar to 19.2% during the three months ended June 30, 2021.

Selling and marketing. Selling and marketing expense for the second quarter of 2022 increased $0.4 million compared to the same period last year. This increase is primarily attributable to an increase in marketing expenses associated with the Sancuso acquisition, including royalty costs, promotional spending and the costs associated with our new oncology sales division.

Research and development. Research and development costs for the second quarter of 2022 and 2021 were $1.8 million and $1.4 million, respectively. A portion of our research and development costs is variable based on the number of trials, study sites, number of patients and the cost per patient in each of our clinical programs. We continue to fund our ongoing clinical initiatives associated with our pipeline products.

General and administrative. General and administrative expense increased to $2.2 million for the second quarter of 2022, compared to $2.1 million for the second quarter of 2021, an increase of $0.1 million . The increase was primarily attributable to increases in compensation expenses.

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

Financial Impact of Vibativ	**Three months ended June 30,**	
	2022	**2021**
Net revenue	$ 1,596,821	$ 1,844,936
Cost of products sold [1]	402,320	678,146
Royalty and operating expenses	(17,957)	767,813
Vibativ contribution	$ 1,212,458	$ 398,977

[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.

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

Financial Impact of Sancuso	**Three months ended June 30,**	
	2022	**2021**
Net revenue [1]	$ 3,648,548	$ —
Cost of products sold [2]	360,572	—
Royalty and operating expenses	992,922	—
Sancuso contribution	$ 2,295,054	$ —

[1] 2022 net revenue includes a $250,000 payment to Cumberland required under the terms of a new licensee agreement.

[2] The Sancuso 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 2022.

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 June 30, 2022 and 2021, totaled approximately $1.5 million and $1.2 million, respectively. The increase in amortization expense is due to the acquisition of Sancuso.

Income taxes. Income tax expense for the three months ended June 30, 2022, was comparable to the income tax expense for the three months ended June 30, 2021.

As of June 30, 2022, we had approximately $56.6 million in federal net operating loss carryforwards including 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 2022 and beyond, through the continued utilization of these net operating loss carryforwards, on any taxable income generated from our operations.

Other income. In the second quarter of 2022, we recognized a gain on insurance proceeds of $0.6 million.

RESULTS OF OPERATIONS

Six months ended June 30, 2022 compared to the six months ended June 30, 2021

The following table presents the unaudited interim statements of operations for continuing operations for the six months ended June 30, 2022 and 2021:

	Six months ended June 30,		
	2022	2021	Change
Net revenues	$ 21,474,197	$ 19,592,642	$ 1,881,555
Costs and expenses:			
Cost of products sold	4,243,769	4,157,978	85,791
Selling and marketing	9,171,114	7,909,157	1,261,957
Research and development	3,568,829	2,617,765	951,064
General and administrative	4,506,324	4,327,639	178,685
Amortization	3,122,698	2,340,132	782,566
Total costs and expenses	24,612,734	21,352,671	3,260,063
Operating income (loss)	(3,138,537)	(1,760,029)	(1,378,508)
Interest income	31,107	12,017	19,090
Other income	—	2,187,140	(2,187,140)
Other income - gain on insurance proceeds	611,330	—	611,330
Interest expense	(257,199)	(50,276)	(206,923)
Income (loss) from continuing operations before income taxes	(2,753,299)	388,852	(3,142,151)
Income tax (expense) benefit	(13,800)	(14,917)	1,117
Net income (loss) from continuing operations	$ (2,767,099)	$ 373,935	$ (3,141,034)

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

	Six months ended June 30,		
	2022	2021	Change
Products:			
Kristalose	$ 7,515,368	$ 8,269,443	$ (754,075)
Sancuso	6,795,758	—	6,795,758
Vibativ	4,098,255	6,897,179	(2,798,924)
Caldolor	2,153,546	2,477,824	(324,278)
Vaprisol	(251,623)	1,534,216	(1,785,839)
Acetadote	237,884	269,972	(32,088)
Omeclamox-Pak	(3,676)	(474,371)	470,695
RediTrex	152,904	(24,870)	177,774
Other revenue	775,781	643,249	132,532
Total net revenues	$ 21,474,197	$ 19,592,642	$ 1,881,555

Net revenues. Net revenues for the six months ended June 30, 2022, were $21.5 million compared to $19.6 million for the six months ended June 30, 2021, an increase of $1.9 million. The addition of our newest product Sancuso contributed to an overall 9.6% revenue increase.

Kristalose revenue was $7.5 million during the first six months of 2022, a decrease of $0.8 million when compared with the prior year period. Revenue decreased due to slightly lower sales volume associated with one of our co-promotion partners in 2022.

Vibativ revenue was $4.1 million for the six months ended June 30, 2022, compared to $6.9 million for the same period last year. The decrease in net revenue was a result of improved sales volume for the product during the six months ended June 30, 2021. The decline was a result of increased purchases in 2021 associated in part with wholesaler stocking of our new packaged product.

Vaprisol revenue was $(0.3) million for the first six months of 2022 as Cumberland is currently out of commercial inventory of the product. Net revenue was negatively impacted by various sales adjustments.

Omeclamox-Pak had no sales for the six months ended June 30, 2022, as Cumberland is currently out of commercial inventory of this product. The packager for our Omeclamox-Pak product encountered financial difficulties and currently is under new management and a reorganization. We are in discussions about the resumption of packaging the product. Net revenue for the six months ended June 30, 2022, was negatively impacted by product returns during the period.

Acetadote revenue includes net sales of our Acetadote brand and our share of net sales from our Authorized Generic. There was a slight decrease in the product's year to date revenue for the six months ended June 30, 2022, when compared to the prior year period as a result of an increase in expired product returns in 2022.

Caldolor revenue was $2.2 million for the first two quarters of 2022, a decrease of $0.3 million compared to the same period last year. International shipments decreased in 2022.

Cost of products sold. Cost of products sold for first six months of 2022 and 2021 were consistent at $4.2 million for each period.

Selling and marketing. Selling and marketing expense for the six months ended June 30, 2022, increased $1.3 million compared to the prior year period. This increase is primarily attributable to an increase in marketing expenses associated with the Sancuso acquisition including royalty costs, promotional spending and the costs associated with our new oncology sales division.

Research and development. Research and development costs were $3.6 million for the first six months of 2022 compared to $2.6 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.

General and administrative. General and administrative expense for the six months ended June 30, 2022, remained consistent with $4.5 million compared to $4.3 million during the six months ended June 30, 2021. In 2022, we experienced a slight increase in compensation expense.

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

Financial Impact of Vibativ	**Six months ended June 30,**	
	2022	**2021**
Net revenue [(1)]	$ 4,248,255	$ 6,897,179
Cost of products sold [(2)]	1,329,480	2,134,962
Royalty and operating expenses	663,360	1,170,165
Vibativ contribution	$ 2,255,415	$ 3,592,052

[(1)] 2022 net revenue includes a $150,000 payment to Cumberland required under the terms of a new licensee agreement.

[(2)] 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.

Financial Impact of Vibativ	**Since Acquisition**
Net revenue [(1)]	$ 40,369,278
Cost of products sold [(2)]	13,518,736
Royalty and operating expenses	7,117,405
Vibativ contribution	$ 19,733,137

[(1)] Net revenue includes a $150,000 payment to Cumberland required under the terms of a new licensee agreement.

[(2)]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.

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

Financial Impact of Sancuso	**Six months ended June 30,**	
	2022	**2021**
Net revenue [1]	$ 7,045,758	$ —
Cost of products sold [2]	748,836	—
Royalty and operating expenses	1,903,022	—
Sancuso contribution	$ 4,393,900	$ —

[1] 2022 net revenue includes a $250,000 payment to Cumberland required under the terms of a new licensee agreement.

[2] The Sancuso 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 2022.

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 six months ended June 30, 2022, and six months ended June 30, 2021, totaled approximately $3.1 million and $2.3 million, respectively. The increase was attributable to the Sancuso acquisition.

Income taxes. Income tax expense (benefit) for the six months ended June 30, 2022, as a percentage of income (loss) from continuing operations before income taxes, was 0.5% compared to 3.8% for the six months ended June 30, 2021.

Other income. In the second quarter of 2022, we recognized a gain on insurance proceeds of $0.6 million.

LIQUIDITY AND CAPITAL RESOURCES

Working Capital

Our primary sources of liquidity are cash equivalents, cash flows from operations and the amounts borrowed under our line of credit. 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.

The following table summarizes our liquidity and working capital as of June 30, 2022 and December 31, 2021:

	June 30, 2022	December 31, 2021
Cash and cash equivalents	$ 18,216,565	$ 27,040,816
Working capital (current assets less current liabilities)	$ 19,496,529	$ 26,409,053
Current ratio (multiple of current assets to current liabilities)	1.8	2.4
Revolving line of credit availability	$ 1,000,000	$ 5,000,000

The following table summarizes our net changes in cash and cash equivalents for the six months ended June 30, 2022 and June 30, 2021:

	Six months ended June 30,	
	2022	2021
Net cash provided by (used in):		
Operating activities	$ 2,180,038	$ 4,484,770
Investing activities	(13,714,489)	(366,854)
Financing activities	2,710,200	(3,201,250)
Net increase (decrease) in cash and cash equivalents	$ (8,824,251)	$ 916,666

The net $8.8 million decrease in cash and cash equivalents for the six months ended June 30, 2022, was primarily attributable to cash used in investing and partially offset by cash provided by operating and financing activities. Cash provided by operating activities of $2.2 million was primarily the result of a decreases in inventory of $2.9 million, decrease in other assets of $1.2 million and increases in accounts payable and other liabilities of $4.7 million, as well as the add back of non-cash expenses of depreciation, amortization and share-based compensation expense totaling $3.4 million. This was partially offset by accounts receivable increasing by $5.5 million, mainly from the addition of Sancuso sales and the decrease in long-term liabilities of $1.7 million. Cash used in investing activities was the result of the acquisition of Sancuso. Our financing activities included the increase in our line of credit of $4.0 million partially offset by the $0.8 million in cash used to repurchase shares of our common stock as well as the $0.5 million used for the payment of royalties for sales of Vibativ.

The net $0.9 million increase in cash and cash equivalents for the six months ended June 30, 2021, was primarily attributable to cash provided by operating activities, partially offset by cash used in investing and financing activities. Cash provided by operating activities of $4.5 million was positively impacted by decreases in inventory of $2.3 million and accounts receivable of $3.2 million, as well as the add back of non-cash expenses of depreciation, amortization and share-based compensation expense totaling $2.8 million. Operating activities were also offset by the decrease in accounts payable of $3.0 million and the forgiveness of our PPP Loan of $2.2 million. Cash used in investing activities was the result of additions to intangibles of $0.1 million and the payment of $0.2 million to the WHC JV. Our financing activities included the $0.8 million in cash used to repurchase shares of our common stock as well as the $1.4 million used for the payment of royalties to Theravance for sales of Vibativ.

Debt Agreement

On June 30, 2022, the Company entered into the Eighth Amendment to the Revolving Credit Loan Agreement with Pinnacle Bank (the "Pinnacle Agreement") permitting the Maximum Funded Debt Ratio to be calculated on a rolling four-quarter basis to be no more than 3.00 to 1.00 for the second and third quarters of 2022 and 2.50 to 1.00 for each quarter thereafter. For the quarter ended June 30, 2022, we slightly exceeded the Maximum Funded Debt Ratio, but we relied on our provision in the latest amendment to address it.

On March 31, 2022, the Company and Pinnacle Bank entered into a Seventh Amendment to the Revolving Credit Loan Agreement to revise and update the Maximum Funded Debt Ratio financial covenant and to delete from the Pinnacle Agreement the Funded Debt to Tangible Capital Ratio financial covenant. These changes were made to more appropriately reflect the impact from the Sancuso acquisition.

On December 31, 2021, the Company and Pinnacle Bank entered into the Fifth Amendment to the Revolving Credit Note and the Sixth Amendment to the Revolving Credit Loan Agreement in order to increase the principal amount of the Note from $15 million to $20 million.

On October 28, 2021, the Company and Pinnacle Bank entered into a Fourth Amendment to the Revolving Credit Note and Fifth Amendment ("Fifth Amendment") to the Revolving Credit Loan Agreement to renew the Revolving Credit Loan.

The original Pinnacle Agreement was dated July 2017. Beginning on August 14, 2018, and continuing until October 7, 2020, the Company and Pinnacle Bank entered into a series of amendments to extend and update the Revolving Credit Note and Revolving Credit Agreement. The Fifth Amendment extends the maturity date three years through October 1, 2024.

The interest rate on the Pinnacle Agreement is based on LIBOR plus an interest rate spread. The current pricing under 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 3.87% at June 30, 2022. 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. The parties have agreed on a process to determine a new interest rate benchmark at the point the LIBOR rate is expected to be discontinued over the next 12 to 24 months.

As of June 30, 2022 and December 31, 2021, the Company had $19.0 million and $15.0 million, respectively, in borrowings outstanding under its revolving credit facility.

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.

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. Cumberland used the PPP loan funds for such qualifying expenses. Due to assistance from our PPP loan, the Company did not lay off or furlough any employees as a result of the COVID-19 pandemic.

In October 2020, Cumberland submitted a request for the loan’s forgiveness. On June 11, 2021, the Company received a formal notice from the SBA that the full amount of the loan was forgiven.

OFF-BALANCE SHEET ARRANGEMENTS

During the six months ended June 30, 2022 and 2021, 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 at June 30, 2022.

The interest rate risk related to borrowings under our line of credit is based on LIBOR plus an interest rate spread. The current pricing under 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 3.87% at June 30, 2022. As of June 30, 2022, we had $19.0 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 six months ended June 30, 2022 and 2021. 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 amended (the "Exchange Act")), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, the Company’s Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company’s disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and is accumulated and communicated to the Company’s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

During the three months ended June 30, 2022, there has not been any change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

There have been no material developments with regard to the legal proceedings previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2021.

Item 1A. Risk Factors

In addition to the other information set forth in this quarterly report, an investor should consider the risk factors included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021.

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 June 30, 2022:

Period	Total Number of Shares or Units Purchased, which were also Part of the Publicly Announced Plans or Programs	Average Price Paid per Share (or Unit)	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
April	28,036	$ 2.68	$ 4,138,402
May	31,608	2.31	4,065,543
June	23,673 [1]	2.05	4,016,898
Total	83,317		

[1] Of this amount, 424 shares were repurchased directly through private purchases at the then-current fair market value of common stock.

Item 6. Exhibits

No.	Description
10.1*	Eighth Amendment to Revolving Credit Loan Agreement, dated as of June 30, 2022, 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*	INLINE 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*	INLINE XBRL TAXONOMY EXTENSION SCHEMA DOCUMENT
101.CAL*	INLINE XBRL TAXONOMY EXTENSION CALCULATION LINKBASE DOCUMENT
101.DEF*	INLINE XBRL TAXONOMY EXTENSION DEFINITION LINKBASE DOCUMENT
101.LAB*	INLINE XBRL TAXONOMY EXTENSION LABEL LINKBASE DOCUMENT
101.PRE*	INLINE XBRL TAXONOMY EXTENSION PRESENTATION LINKBASE DOCUMENT
104	COVER PAGE INTERACTIVE DATA FILE (FORMATTED AS INLINE XBRL AND CONTAINED IN EXHIBIT 101)

* 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: August 12, 2022

By: /s/ John Hamm

John Hamm

Chief Financial Officer and Duly Authorized Officer

EIGHTH AMENDMENT TO REVOLVING CREDIT LOAN AGREEMENT

THIS EIGHTH AMENDMENT TO REVOL YING CREDIT LOAN AGREEMENT (this **"Amendment")** is entered into as of June 30, 2022 by and between CUMBERLAND PHARMACEUTICALS INC., a Tennessee corporation **("Borrower"),** and PINNACLE BANK, a Tennessee banking corporation (the **"Lender").**

RECITALS:

1. 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, as amended by that certain Second Amendment to Revolving Credit Note and Third Amendment to Revolving Credit Loan Agreement dated May 10, 2019, as amended by that certain Third Amendment to Revolving Credit Note and Fourth Amendment to Revolving Credit Loan Agreement dated October 7, 2020, as amended by that certain Fourth Amendment to Revolving Credit Note and Fifth Amendment to Revolving Credit Loan Agreement dated as of October 28, 2021, as amended by that certain Fifth Amendment to Revolving Credit Note and Sixth Amendment to Revolving Credit Loan Agreement dated as of December 31, 2021, and as amended by that certain Seventh Amendment to Revolving Credit Loan Agreement dated as of March 31, 2022(the **"Loan Agreement").** Capitalized terms not otherwise defined therein have the same meaning as set forth in the Loan Agreement.

1. Borrower and the Lender desire to amend the 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:

a. Section 6.7 of the Loan Agreement is hereby amended and restated as follows:

6.7 Maximum Funded Debt Ratio. Permit the Funded Debt Ratio of Borrower, as calculated on a rolling four quarter basis for Borrower and its Subsidiaries, to exceed the following ratios as of the dates set forth below:

Measurement Date	**Maximum Ratio**
June 30, 2022 and September 30	3.00 to 1.
December 31, 2022 and each March 31si, June 30th, September 30th and December	2.50 to 1.

1. Section 7.5 of the Loan Agreement is hereby amended and restated as follows:

7.5 Liquiditv Cure. For a three (3) 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.l(c) hereof), Borrower may cure such Event of Default by paying down the Loan in an amount that would have resulted in compliance with Section 6.7 as of the date of measurement. From June 30, 2022 to the Maturity Date, Borrower may not exercise the Liquidity Cure provided hereunder more than two (2) times.

1. As a condition precedent to the effectiveness of this Amendment, Borrower shall pay to Lender all fees and expenses incurred by Lender in connection herewith, including without limitation a
$4,000 amendment fee and reasonable legal fees.

1. The Loan Agreement are not amended in any other respect.

1. Borrower reaffirms the terms and provisions of the Loan Documents and agrees that such are valid and binding, enforceable in accordance with their terms and provisions, and 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: ______________________
A.J. Kazimi, Chief Executive Officer

LENDER:

PINNACLE BANK

By: ______________________

Mark D. Mattson, Senior Vice President

[Signature Page to Eighth 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.

August 12, 2022 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, John Hamm, 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.

August 12, 2022 By: /s/ John Hamm
John Hamm
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 June 30, 2022 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 John Hamm, 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
August 12, 2022

/s/ John Hamm
John Hamm
Chief Financial Officer
August 12, 2022