# 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 March 31, 2019**

**OR**

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

**For the transition period from to .**

**Commission file number: 001-33637**

# Cumberland Pharmaceuticals Inc.

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

| **Tennessee** | **62-1765329** |
|---|---|
| **(State or Other Jurisdiction of Incorporation or Organization)** | **(I.R.S. Employer Identification No.)** |
| **2525 West End Avenue, Suite 950, Nashville, Tennessee** | **37203** |
| **(Address of Principal Executive Offices)** | **(Zip Code)** |

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files.) Yes ☒ No ☐

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

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

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

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

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

| Class | Trading Symbol | Name of exchanged on which registered | Outstanding at May 10, 2019 |
|---|---|---|---|
| Common stock, no par value | CPIX | NASDAQ Global Select Market | 15,537,130 |

**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)**

| | March 31, 2019 | December 31, 2018 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 24,609,415 | $ 27,938,960 |
| Marketable securities | 9,667,073 | 8,290,679 |
| Accounts receivable, net | 9,973,995 | 7,844,249 |
| Inventories, net | 11,259,233 | 12,078,343 |
| Prepaid and other current assets | 2,456,453 | 2,963,806 |
| Total current assets | 57,966,169 | 59,116,037 |
| Non-current inventories | 15,862,092 | 15,749,000 |
| Property and equipment, net | 744,085 | 771,213 |
| Intangible assets, net | 32,910,261 | 33,655,099 |
| Goodwill | 882,000 | 784,000 |
| Deferred tax assets, net | 43,605 | 87,210 |
| Other assets | 6,209,417 | 2,531,309 |
| Total assets | $ 114,617,629 | $ 112,693,868 |
| **LIABILITIES AND EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 9,292,014 | $ 11,093,297 |
| Other current liabilities | 18,706,631 | 16,710,927 |
| Total current liabilities | 27,998,645 | 27,804,224 |
| Revolving line of credit | 20,000,000 | 20,000,000 |
| Other long-term liabilities | 11,428,257 | 9,319,143 |
| Total liabilities | 59,426,902 | 57,123,367 |
| Commitments and contingencies | | |
| Equity: | | |
| Shareholders' equity: | | |
| Common stock—no par value; 100,000,000 shares authorized; 15,547,517 and 15,481,497 shares issued and outstanding as of March 31, 2019 and December 31, 2018, respectively | 50,759,257 | 51,098,613 |
| Retained earnings | 4,672,276 | 4,746,154 |
| Total shareholders' equity | 55,431,533 | 55,844,767 |
| Noncontrolling interests | (240,806) | (274,266) |
| Total equity | 55,190,727 | 55,570,501 |
| Total liabilities and equity | $ 114,617,629 | $ 112,693,868 |

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

| | Three months ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| Net revenues | $ 11,902,747 | $ 8,587,605 |
| Costs and expenses: | | |
| Cost of products sold | 1,999,736 | 1,527,961 |
| Selling and marketing | 5,120,505 | 4,670,511 |
| Research and development | 1,267,601 | 1,874,939 |
| General and administrative | 2,670,056 | 2,330,281 |
| Amortization | 1,021,645 | 636,135 |
| Total costs and expenses | 12,079,543 | 11,039,827 |
| Operating income (loss) | (176,796) | (2,452,222) |
| Interest income | 115,861 | 82,494 |
| Interest expense | (60,911) | (18,302) |
| Income (loss) before income taxes | (121,846) | (2,388,030) |
| Income tax (expense) benefit | 81,428 | (4,159) |
| Net income (loss) | (40,418) | (2,392,189) |
| Net (income) loss at subsidiary attributable to noncontrolling interests | (33,460) | 12,950 |
| Net income (loss) attributable to common shareholders | $ (73,878) | $ (2,379,239) |
| Earnings (loss) per share attributable to common shareholders | | |
| - basic | $ — | $ (0.15) |
| - diluted | $ — | $ (0.15) |
| Weighted-average shares outstanding | | |
| - basic | 15,472,952 | 15,689,240 |
| - diluted | 15,472,952 | 15,689,240 |
| Comprehensive income (loss) attributable to common shareholders | (73,878) | (2,379,239) |
| Net (income) loss at subsidiary attributable to noncontrolling interests | (33,460) | 12,950 |
| Total comprehensive income (loss) | $ (40,418) | $ (2,392,189) |

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

| | Three months ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| Cash flows from operating activities: | | |
| Net income (loss) | $ (40,418) | $ (2,392,189) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization expense | 1,076,246 | 692,991 |
| Deferred tax expense | 43,605 | — |
| Share-based compensation | 364,434 | 339,209 |
| (Decrease) increase in non-cash contingent consideration | (269,422) | — |
| Noncash interest expense | 10,497 | 18,303 |
| Noncash investment gains | (44,191) | (43,338) |
| Net changes in assets and liabilities affecting operating activities: | | |
| Accounts receivable | (2,129,746) | 2,093,950 |
| Inventories | 819,110 | 76,323 |
| Other current assets and other assets | 134,578 | 600,884 |
| Accounts payable and other current liabilities | 3,499 | (1,254,535) |
| Other long-term liabilities | (353,925) | 103,991 |
| Net cash provided by (used in) operating activities | (385,733) | 235,589 |
| Cash flows from investing activities: | | |
| Additions to property and equipment | (27,474) | (94,881) |
| Purchases of marketable securities | (7,816,191) | (15,151,948) |
| Proceeds from sale of marketable securities | 6,483,988 | 4,257,657 |
| Additions to intangible assets | (363,711) | (532,954) |
| Net cash used in investing activities | (1,723,388) | (11,522,126) |
| Cash flows from financing activities: | | |
| Borrowings on line of credit | 19,000,000 | 12,000,000 |
| Repayments on line of credit | (19,000,000) | (9,800,000) |
| Proceeds from sales of common stock, net of offering costs | — | 200,909 |
| Payments of deferred offering costs | — | (248,108) |
| Cash payment of contingent consideration | (507,505) | — |
| Repurchase of common shares | (712,919) | (1,016,156) |
| Net cash provided by (used in) financing activities | (1,220,424) | 1,136,645 |
| Net increase (decrease) in cash and cash equivalents | (3,329,545) | (10,149,892) |
| Cash and cash equivalents at beginning of period | $ 27,938,960 | 45,412,868 |
| Cash and cash equivalents at end of period | $ 24,609,415 | $ 35,262,976 |
| | | |
| Supplemental non-cash investing and financing activities: | | |
| Recognition of operating lease assets and liabilities through adoption of ASC 842 | $ 3,629,320 | $ — |

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

| | Common stock | | | Noncontrolling | |
|---|---|---|---|---|---|
| | Shares | Amount | Retained earnings | interests | Total equity |
| Balance, December 31, 2017 | 15,723,075 | $ 52,410,941 | $ 11,709,222 | $ (198,562) | $ 63,921,601 |
| Proceeds from sales of common stock, net of offering costs | 30,704 | 200,909 | — | — | 200,909 |
| Share-based compensation | 145,550 | 339,209 | — | — | 339,209 |
| Repurchase of common shares | (172,079) | (1,195,225) | — | — | (1,195,225) |
| Net loss | — | — | (2,379,239) | (12,950) | (2,392,189) |
| Balance, March 31, 2018 | 15,727,250 | $ 51,755,834 | $ 9,329,983 | $ (211,512) | $ 60,874,305 |

| | Common stock | | | Noncontrolling | |
|---|---|---|---|---|---|
| | Shares | Amount | Retained earnings | interests | Total equity |
| Balance, December 31, 2018 | 15,481,497 | $ 51,098,613 | $ 4,746,154 | $ (274,266) | $ 55,570,501 |
| Share-based compensation | 187,486 | 364,434 | — | — | 364,434 |
| Repurchase of common shares | (121,466) | (703,790) | — | — | (703,790) |
| Net loss | — | $ — | $ (73,878) | $ 33,460 | $ (40,418) |
| Balance, March 31, 2019 | 15,547,517 | $ 50,759,257 | $ 4,672,276 | $ (240,806) | $ 55,190,727 |

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

## (1) ORGANIZATION AND BASIS OF PRESENTATION

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

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

In the opinion of management, the accompanying unaudited condensed consolidated financial statements of the Company have been prepared on a basis consistent with the December 31, 2018 audited consolidated financial statements, with the exception of the impacts of adopting accounting pronouncements during 2019, 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, 2018 (the “2018 Annual Report on Form 10-K”). The results of operations for the three months ended March 31, 2019 are not necessarily indicative of the results to be expected for the entire fiscal year or any future period.

Total comprehensive income (loss) consisted solely of net income (loss) for the three months ended March 31, 2019 and 2018.

***Recent Accounting Guidance***

*Recent Adopted Accounting Pronouncement*

In February 2016, the Financial Accounting Standards Board ("FASB") issued guidance in the form of a FASB Accounting Standards Update ("ASU") No. 2016-02, “Leases.” The new standard establishes a right-of-use (“ROU”) model that requires a lessee to record an ROU asset and a lease liability on the balance sheet for all leases with terms longer than twelve months. Leases will be classified as either finance (formerly "capital leases") or operating, with classification affecting the pattern of expense recognition in the income statement. The standard provides for a modified retrospective transition approach for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain optional practical expedients. In July 2018, the FASB issued ASU 2018-11, "Leases: Targeted Improvements", allowing for an alternative transition method (the effective date approach). It allows an entity to initially apply the new lease guidance at the adoption date (rather than at the beginning of the earliest period presented). Cumberland adopted the lease guidance effective January 1, 2019 using the package of transition practical expedients. This allowed the Company to retain the lease classification for any leases existing prior to adoption, in addition to other benefits. See additional discussion of the impact of adopting the lease accounting guidance in Note 6.

*Recent Accounting Pronouncements - Not Yet Adopted*

In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments-Credit Losses,” which changes the impairment model for most financial assets and certain other instruments. For trade and other receivables, held-to-maturity debt securities, loans and other instruments, companies will be required to use a new forward-looking “expected loss” model that generally will result in the earlier recognition of allowances for losses. For available-for-sale debt securities with unrealized losses, companies will measure credit losses in a manner similar to what they do today, except that the losses will be recognized as allowances rather than as reductions in the amortized cost of the securities. Companies will have to disclose significantly more 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 to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. This standard is effective for the Company on January 1, 2020 with early adoption permitted. The Company is in the initial stage of evaluating the impact of this new standard on its trade and other receivables.

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

***Accounting Policies:***

*Use of Estimates*

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

*Operating Segments*

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

**(2) MARKETABLE SECURITIES**

The Company invests in marketable debt securities in order to maximize its return on cash. Marketable securities consist of short-term cash investments, U.S. Treasury notes and bonds, U.S. government agency issued mortgage-backed securities, U.S. government agency notes and bonds, Small Business Administration (“SBA”) loan pools, corporate bonds and commercial paper. At the time of purchase, the Company classifies marketable securities as either trading securities or available-for-sale securities, depending on the intent at that time. As of March 31, 2019 and December 31, 2018, marketable securities were comprised solely of trading securities. Trading securities are carried at fair value with unrealized gains and losses recognized as a component of interest income in the consolidated statements of operations.

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

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

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

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

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

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

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

| | March 31, 2019 | | | December 31, 2018 | | |
|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Total | Level 1 | Level 2 | Total |
| U.S. Treasury notes and bonds | $ 5,088,386 | $ — | $ 5,088,386 | $ 5,034,955 | $ — | $ 5,034,955 |
| Corporate bonds | — | — | — | — | 2,504,551 | 2,504,551 |
| Commercial paper | | 2,256,191 | 2,256,191 | — | — | — |
| Short-term cash investments | — | 2,322,496 | 2,322,496 | — | 751,173 | 751,173 |
| Total fair value of marketable securities | $ 5,088,386 | $ 4,578,687 | $ 9,667,073 | $ 5,034,955 | $ 3,255,724 | $ 8,290,679 |

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

The following table reconciles the numerator and denominator used to calculate diluted earnings (loss) per share for the three months ended March 31, 2019 and 2018:

| | Three months ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| Numerator: | | |
| Net income (loss) attributable to common shareholders | $ (73,878) | $ (2,379,239) |
| Denominator: | | |
| Weighted-average shares outstanding – basic | 15,472,952 | 15,689,240 |
| Dilutive effect of other securities | — | — |
| Weighted-average shares outstanding – diluted | 15,472,952 | 15,689,240 |

As of March 31, 2019 and 2018, restricted stock awards and options to purchase 263,919 and 247,530 shares of common stock, respectively, were outstanding but were not included in the computation of diluted earnings per share because the effect would be antidilutive.

**(4) REVENUES**

*Product Revenues*

The Company accounts for revenues from contracts with customers under ASC 606, which became effective January 1, 2018. As part of the adoption of ASC 606, the Company applied the new standard on a modified retrospective basis analyzing open contracts as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under ASC 606, while prior period amounts were not adjusted and are reported in accordance with ASC 605. However, no cumulative effect adjustment to historical retained earnings was necessary as no revenue recognition differences were identified when comparing the revenue recognition criteria under ASC 606 to previous requirements.

The Company's net revenues consisted of the following for the three months ended March 31, 2019 and 2018:

| | Three months ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| Products: | | |
| Acetadote | $ 849,502 | $ 1,273,764 |
| Omeclamox-Pak | 199,537 | 141,392 |
| Kristalose | 3,307,658 | 3,269,901 |
| Vaprisol | 286,676 | 93,890 |
| Caldolor | 1,317,074 | 1,039,747 |
| Ethyol | 3,091,991 | 2,256,073 |
| Totect | 80,896 | 412,774 |
| Vibativ | 2,060,195 | — |
| Other | 709,218 | 100,064 |
| Total net revenues | $ 11,902,747 | $ 8,587,605 |

*Other Revenues*

The Company has agreements with international partners for commercialization of the Company's products. The international agreements provide that each of the partners are responsible for seeking regulatory approvals for the products, and following approvals, each partner will handle ongoing distribution and sales in the respective international territories. The Company maintains responsibility for the intellectual property and product formulations. Under the international agreements, the Company is typically entitled to receive a non-refundable, up-front payment at the time each agreement is entered into and additional payments upon the partners' achievement of defined regulatory approvals, sales milestones or both. The Company may also be entitled to receive royalties on future sales of the products under the agreements and a transfer price on supplies.

**(5) INVENTORIES**

The Company works closely with third parties to manufacture and package finished goods for sale. Based on the relationship 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 from the manufacturer. The Company then warehouses such goods until distribution and sale. 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 inventory by comparing sales history and sales 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 March 31, 2019 and December 31, 2018, the Company has recognized and maintained cumulative charges for potential obsolescence and discontinuance losses of approximately $0.1 million and $0.3 million, respectively.

In connection with the acquisition of certain product rights related to the Kristalose brand, the Company is responsible for the purchase of the active pharmaceutical ingredient ("API") for Kristalose and maintains the inventory at the third-party manufacturer. As the 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 total. Consigned inventory represents Authorized Generic inventory stored until shipment.

As part of the Vibativ acquisition, Cumberland acquired API and work in process inventories of $14.9 million that are classified as non-current inventories at March 31, 2019 and December 31, 2018. Non-current inventories also include $0.9 million and $0.8 million in Vibativ finished goods at March 31, 2019 and December 31, 2018, respectively.

The Company's net inventories consisted of the following:

| | March 31, 2019 | December 31, 2018 |
|---|---|---|
| Raw materials and work in process | $ 18,383,018 | $ 18,378,450 |
| Consigned inventory | 683,733 | 937,006 |
| Finished goods, net of reserve | 8,054,574 | 8,511,887 |
| Total inventories | 27,121,325 | 27,827,343 |
| less non-current inventories | (15,862,092) | (15,749,000) |
| Total inventories classified as current | $ 11,259,233 | $ 12,078,343 |

**(6) LEASES**

In March 2016, the FASB issued ASU 2016-02. ASU 2016-02's core principle is to increase transparency and comparability among organizations by recognizing lease assets and liabilities on the balance sheet and disclosing key information. The Company adopted ASU 2016-02 under the alternative transition method (the effective date approach). It allowed the Company to initially apply the new lease guidance at the adoption date (rather than at the beginning of the earliest period presented). Prior periods have not been adjusted.

The primary effect of adopting ASU 2016-02 to the Company was to record right-of-use assets and obligations for the leases currently classified as operating leases. The Company's significant operating leases include the lease of approximately 25,500 square feet of office space in Nashville, Tennessee for its corporate headquarters. This lease currently expires in October 2022. The operating leases also include the lease of approximately 14,200 square feet of wet laboratory and office space in Nashville, Tennessee by Cumberland Emerging Technologies ("CET"), our majority-owned subsidiary, where it operates the CET Life Sciences Center. This lease currently expires in April 2023. The Company did not have any leases classified as finance leases at January 1, 2019 or March 31, 2019. The new lease accounting standard did not have a significant impact on the Company's Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) for any period presented.

The Company elected the package of practical expedients offered in the transition guidance which allows management not to reassess lease identification, lease classification and initial direct costs at the adoption date.

These operating leases resulted in initial ROU assets of $3.6 million and lease liabilities of $3.8 million as of January 1, 2019 for non-cancelable operating leases with original lease terms in excess of one year.

Operating lease liabilities were 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 the Company'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 remaining lease term is 3.7 years and the weighted-average incremental borrowing rate used to discount the present value of the remaining lease payments is 7.42%.

*Lease Position*

At March 31, 2019, the Company recorded the following on the Condensed Consolidated Balance Sheet:

| Right-of-Use Assets | Balance Sheet Classification | March 31, 2019 |
|---|---|---|
| Operating lease right-of-use assets | Other non-current assets | $ 3,487,977 |
| Total | | $ 3,487,977 |

| Lease Liabilities | Balance Sheet Classification | March 31, 2019 |
|---|---|---|
| Current: | | |
| Operating lease liabilities | Other current liabilities | $ 1,023,603 |
| Noncurrent: | | |
| Operating lease liabilities | Other long-term liabilities | 2,605,717 |
| Total | | $ 3,629,320 |

| Maturity of Leases Liabilities at March 31, 2019 | Operating Leases |
|---|---|
| 2019 | $ 825,712 |
| 2020 | 1,120,067 |
| 2021 | 1,144,889 |
| 2022 | 1,019,313 |
| 2023 | 92,478 |
| After 2023 | 0 |
| Total lease payments | 4,202,459 |
| Less: Interest | (573,139) |
| Present value of lease liabilities | $ 3,629,320 |

The Company's future minimum lease commitments as of December 31 2018, under Accounting Standards Codification 840, predecessor to the newly adopted lease accounting guidance, are as follows:

| Year ending December 31: | |
|---|---|
| 2019 | $ 959,902 |
| 2020 | 980,720 |
| 2021 | 1,001,603 |
| 2022 | 871,969 |
| 2023 | 44,508 |
| 2024 and thereafter | — |
| Total future minimum lease payments | $ 3,858,702 |

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

*Share repurchases*

The Company 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 three months ended March 31, 2019 and March 31, 2018, the Company repurchased 121,466 shares and 172,079 shares, respectively, of common stock for approximately $0.7 million and $1.2 million, respectively.

*Share purchases and sales*

During the March 2019 trading window, several members of the the Company's Board of Directors entered into share purchase agreements of the Company's stock pursuant to Rule 10b-18 of the Securities Exchange Act of 1934. These purchases are designed to further the amount of ownership by the Board of Directors. During the March 2019 trading window, one Board member entered into a share sale agreement, as required by a policy change by his employer, which now prohibits his ownership in the Company. The policy did not impact his ability to serve on the Company's Board of Directors.

*Share Sale*

In November 2017, the Company 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. During the three months ended March 31, 2018, the Company issued 30,704 shares of common stock for gross proceeds of $0.2 million as part of its At-The-Market ("ATM") sales agreement with B. Riley FBR. The Company did not issue any shares under the ATM during the three months ended March 31, 2019.

*Restricted Share Grants*

During the three months ended March 31, 2019, and March 31, 2018, the Company issued 222,269 shares and 229,205 shares of restricted stock to employees and directors, respectively. Restricted stock issued to employees generally cliff-vests on the fourth anniversary of the date of grant and for directors on the one-year anniversary of the date of grant. Stock compensation expense is presented as a component of general and administrative expense in the condensed consolidated statements of operations and comprehensive income (loss).

*Debt Agreement*

On May 10, 2019, the Company entered into a third amendment ("Third Amendment") to the Revolving Credit Loan Agreement, dated July 28, 2017, with Pinnacle Bank ("Pinnacle Agreement"). The Third Amendment extended the term of the Pinnacle Agreement through July 31, 2021 as well as modified certain definitions and terms of the existing financial covenants. On October 17, 2018, the Company entered into a second amendment ("Second Amendment") which increased the maximum aggregate principal available for borrowing under the Pinnacle Agreement to $20.0 million. Cumberland increased the maximum aggregate principal available for borrowing to support potential future acquisitions and general corporate purposes. The initial revolving line of credit under the Pinnacle Agreement was for up to an aggregate principal amount of $12.0 million with the ability to increase the principal amount available for borrowing up to $20.0 million, upon the satisfaction of certain conditions.

The Pinnacle Agreement replaced the June 2014 Revolving Credit Loan Agreement with SunTrust Bank, which was to expire on June 30, 2018. The Company had $20.0 million in borrowings under the Pinnacle Agreement at March 31, 2019 and December 31, 2018, thereby using all of its available borrowing under its revolving line of credit.

The interest rate on the Pinnacle Agreement is based on LIBOR plus an interest rate spread. There is no LIBOR minimum and the LIBOR pricing provides for an interest rate spread of 1.75% to 2.75% (representing an interest rate of 5.2% at March 31, 2019). In addition, a fee of 0.25% per year is charged on the unused line of credit. Interest and the unused line fee are payable quarterly. Borrowings under the line of credit are collateralized by substantially all of our assets.

Under the Pinnacle Agreement, Cumberland was initially subject to one financial covenant, the maintenance of a Funded Debt Ratio, as such term is defined in the agreement and determined on a quarterly basis. On August 14, 2018, the Company amended the Pinnacle Agreement ("First Amendment") to replace the single financial covenant with the maintenance of either the Funded Debt Ratio or a Tangible Capital Ratio, as defined in the First Amendment. The Third Amendment modified the definition of the Funded Debt Ratio and the compliance target of the Tangible Capital Ratio. Both Third Amendment modifications were related to the Vibativ transaction. As a result of the Third Amendment, the Company was in compliance with the Tangible Capital Ratio financial covenant as of March 31, 2019.

**(8) INCOME TAXES**

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act ("the Tax Act"). The Tax Act makes broad and complex changes to the U.S. tax code, including, but not limited to, (1) reducing the U.S. federal corporate tax rate to 21%; (2) eliminating the corporate alternative minimum tax ("AMT") and changing how AMT credits can be realized; (3) capital expensing; and (4) creating new limitations on deductible interest expense and executive compensation.

The SEC staff issued Staff Accounting Bulletin (“SAB”) 118, providing guidance on applying the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under ASC 740. In accordance with SAB 118, a company reflects the income tax effects of the Tax Act for which the accounting under ASC 740 is complete. To the extent that a company’s accounting for certain income tax effects of the Tax Act is incomplete but a reasonable estimate is available, it must record the estimate in the financial statements. If a company cannot determine an estimate, it should continue to apply ASC 740 on the basis of the tax laws that were in effect immediately prior to enactment of the Tax Act. The Company expects it will continue to pay minimal taxes in future periods through the continued utilization of net operating loss carryforwards, as it is able to achieve taxable income through its operations.

**(9) COLLABORATIVE AGREEMENTS**

Cumberland is a party to several collaborative arrangements with research institutions to identify and pursue promising pharmaceutical product candidates. The Company has determined that these collaborative agreements 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. The funding for these programs is primarily provided through Federal Small Business Administration (SBIR/STTR) and other grant awards. 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 and comprehensive income (loss).

**(10) RECENT PRODUCT ADDITIONS**

*Omeclamox-Pak*

In December 2018, Cumberland completed an agreement with Gasto-enterlogics Inc. ("GEL") to acquire the remaining product rights associated with Omeclamox-Pak, including the product’s FDA-approved New Drug Application and the domestic and international trademarks. As part of the transaction, which was accounted for as an asset acquisition, Cumberland paid $2.3 million during 2018 and ended Cumberland’s payments of royalties and manufacturing fees to GEL. The Company has now assumed responsibility for the maintenance of the product’s FDA approval and for the oversight of the product’s manufacturing and packaging.

*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, FDA approved injectable anti-infective for the treatment of certain serious bacterial infections including hospital-acquired and ventilator-associated bacterial pneumonia and complicated skin and skin structure infections. It addresses a range of Gram-positive bacterial pathogens, including those that are considered difficult-to-treat and multidrug-resistant. Cumberland acquired Vibativ to further add to its product offerings, increase its net revenue and positively contribute to the Company's operating results. While Cumberland is still evaluating the tax deductibility of the goodwill acquired in the acquisition, it expects those amounts to be deductible for tax purposes.

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

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

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

The contingent consideration liability represents the future net sales royalty payments discussed above. Cumberland prepared the valuations of the contingent consideration liability and the intangible assets utilizing significant unobservable inputs. As a result, the valuations are classified as Level 3 fair value measurements. The Company will continue to evaluate the assets acquired and liabilities assumed during the measurement period.

The following table presents the changes in the Company's Level 3 contingent consideration liability that is measured at fair value on a recurring basis. The contingent consideration earned and accrued in operating expenses is paid to the seller quarterly.

| | | **Contingent consideration liability** |
|---|---|---|
| Balance at November 12, 2018 | $ | 9,034,000 |
| Change in fair value of contingent consideration included in operating expenses | | (40,000) |
| Contingent consideration earned and accrued in operating expenses | | 508,000 |
| Balance at December 31, 2018 | | 9,502,000 |
| Adjustment to initial fair value of the contingent consideration liability | | 148,000 |
| Cash payment of royalty during the period | | (507,505) |
| Change in fair value of contingent consideration included in operating expenses | | (269,422) |
| Contingent consideration earned and accrued in operating expenses | | 199,432 |
| Balance at March 31, 2019 | $ | 9,072,505 |

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

| | | |
|---|---|---|
| Finished goods inventory | $ | 6,624,000 |
| Work in process - unlabeled vials | | 3,970,000 |
| Work in process - validation vials | | 1,827,000 |
| Raw materials | | 9,129,000 |
| Total inventory | $ | 21,550,000 |
| | | |
| Intellectual property amortizable intangible assets | $ | 11,750,000 |
| Goodwill | | 882,000 |
| Total intangibles and goodwill | $ | 12,632,000 |
| Total assets acquired | $ | 34,182,000 |

The Company's contingent consideration liability is a Level 3 fair value measurement that is updated on a recurring basis at each reporting period using a valuation model. Consistent with Level 3 fair value measurements, there are significant inputs to the valuation model that are unobservable. The current portion of the contingent consideration liability is $2.2 million and the non-current portion is $6.9 million.

**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. We caution you that our actual results may differ significantly from the results we discuss in these forward-looking statements. Some important factors which may cause results to differ from expectations include: availability of additional debt and equity capital required to finance the business model; market conditions at the time additional capital is required; our ability to continue to acquire branded products; product sales; and management of our growth and integration of our acquisitions. 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, 2018 ("2018 Annual Report on Form 10-K"). We do not undertake to publicly update or revise any of our forward-looking statements, even in the event that experience or future changes indicate that the anticipated results will not be realized. The following presentation of management's discussion and analysis of financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and related notes included in this report on Form 10-Q.

## OVERVIEW

### Our Business

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

Our portfolio of FDA approved brands includes:

- **Acetadote®** (*acetylcysteine*) Injection, for the treatment of acetaminophen poisoning;
- **Caldolor®** (*ibuprofen*) Injection, for the treatment of pain and fever;
- **Kristalose®** (*lactulose*) for Oral Solution, a prescription laxative, for the treatment of chronic and acute constipation;
- **Omeclamox®-Pak**, (*omeprazole, clarithromycin, amoxicillin*) for the treatment of Helicobacter pylori (*H. pylori*) infection and related duodenal ulcer disease;
- **Vaprisol®** (*conivaptan*) Injection, to raise serum sodium levels in hospitalized patients with euvolemic and hypervolemic hyponatremia;
- **Ethyol®** *(amifostine)* Injection, for the reduction of xerostomia (dry mouth) in patients undergoing post-operative radiation treatment for head and neck cancer and the renal toxicity associated with the administration of cisplatin in patients with advanced ovarian cancer;
- **Totect®** *(dexrazoxane hydrochloride)* Injection, for emergency oncology intervention, to treat the toxic effects of anthracycline chemotherapy in case of extravasation (drug leakage from the bloodstream into the tissues); 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.

Our pipeline of product candidates includes:

- **Hepatoren®** (*ifetroban*) Injection, a Phase II candidate for the treatment of critically ill patients suffering from liver and kidney failure associated with hepatorenal syndrome ("HRS");
- **Boxaban®** *(ifetroban)* Oral Capsules, a Phase II candidate for the treatment of asthma patients with aspirin-exacerbated respiratory disease ("AERD");
- **Vasculan®** *(ifetroban)* Oral Capsules, a Phase II candidate for the treatment of patients with the systemic sclerosis ("SSc") form of autoimmune disease;
- **Portaban®** *(ifetroban)* Injection and Oral Capsules, a Phase II candidate for the treatment of patients with portal hypertension associated with liver disease; and
- **RediTrex™** (*methotrexate*) Injection, an approval submission candidate for the treatment of active rheumatoid, juvenile idiopathic and severe psoriatic arthritis, as well as severe disabling psoriasis.

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

**Growth Strategy**

Our growth strategy involves maximizing the potential of our existing brands, while continuing to build a portfolio of differentiated products. We currently market eight FDA approved products for sale in the United States. Through our international partners, we are working to bring our products to patients in their countries. We also look for opportunities to expand our products into additional patient populations through clinical trials, new indications, and 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 to address unmet medical needs. Further, we are supplementing these activities with the early stage drug development activities at Cumberland Emerging Technologies ("CET"), our majority-owned subsidiary. Specifically, we are seeking long term sustainable growth by executing the following plans:

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

**Selectively add complementary brands.** In addition to our product development activities, we are also seeking to acquire products 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 represents our largest product acquisition.

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

**Leverage 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 the opportunity for our brands. Our recent co-promotion partnerships with Poly Pharmaceuticals, Inc. and Foxland Pharmaceuticals, Inc allow us to expand current promotional support for Kristalose across the United States.

**Build an international contribution to our business.** We have established our own commercial capabilities, including two 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.

**Manage our operations with financial discipline.** We continually work to manage our expenses in line with our revenues in order to deliver positive cash flow from operations. We remain in a strong financial position, with favorable gross margins, and a strong balance sheet. We use excess cash flow for our ongoing share repurchase program.

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

## RECENT DEVELOPMENTS

### Methotrexate

On January 18, 2019, the Company received notification from the U.S Food and Drug Administration (“FDA”) that the new drug application (“NDA”) for our new line of methotrexate products is complete and acceptable for filing. Furthermore, the FDA has set September 2019 as the Prescription Drug User Fee (“PDUFA”) action date for an approval decision. In November 2018, we submitted the NDA for approval from the FDA. In conjunction with this submission, we remitted payment of $1.3 million to the FDA for the PDUFA Application Fee associated with this methotrexate product line application. These products are designed to treat adult and pediatric patients with rheumatoid arthritis, as well as adults with psoriasis.

### Caldolor

On January 28, 2019, the FDA approved the application of our next generation Caldolor (ibuprofen) injection product. In February 2018, Cumberland completed and filed with the FDA an application for approval. The product features a new, patented formulation in a more convenient to use package. In April 2018, the FDA determined that the application was complete and notified us of their acceptance for review. On August 2, 2018, we received a complete response from the FDA outlining additional quality and nonclinical data needed for the application’s approval. On September 26, 2018, the Company submitted an amendment to our application containing additional quality and nonclinical data.

### New CET Collaboration Agreement

At CET, we are working with a select group of academic research institutions located in the mid-south region of the U.S. These relationships enable CET to identify therapeutic compounds addressing poorly met medical needs and partner with university-based researchers to advance their scientific discoveries through pre-clinical development. CET contributes product design and development support services to help our collaborators bridge the gap between discovery and clinical investigation.

In February 2019, CET and the technology transfer organization for the Medical University of South Carolina ("MUSC") entered into an agreement, adding to CET’s roster of academic collaborations which also includes Vanderbilt University, the University of Mississippi, Louisiana State University and the University of Tennessee Research Foundation. Under the agreement, CET will evaluate MUSC discoveries, license intellectual property rights to promising technologies, and partner with MUSC research scientists to advance product development toward commercialization.

### New Hospital Product Candidate Study

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

During 2017, we completed a Phase I study which defined the pharmacokinetic properties and provided a favorable safety profile for this new product candidate. The study results and a proposed clinical development plan were discussed with the FDA and, as a result, in 2018 a Phase II study was initiated.

### Strategic Review

On March 29, 2019, we announced that we had initiated a strategic review of our brands, capabilities and international partners. This review followed our accelerated business development initiative, which delivered a series of transactions over the last thirty-six months. Because of that progress, we felt that it was prudent to take a fresh look at our portfolio, partners, and organization to ensure we have the proper focus and capabilities. As a result:

- In China, the largest market for pharmaceutical products outside the U.S., we have reached an agreement with Hong Kong WinHealth Pharmaceuticals (“WinHealth”) to assume responsibility for our Acetadote and Caldolor brands in that market. WinHealth will provide $2 million in milestone payments and up to an estimated $290 million in revenue contribution over a ten - year period for supplies following the registration of both products in China.
- Meanwhile, we have reached an agreement with Clinigen Group plc to return the U.S. rights to their Ethyol and Totect brands to them later this year in exchange for $5 million in financial consideration paid over a two year period.
- As a result, our hospital product efforts will now be focused on our three key acute care products. We are expanding our hospital sales division as well as our field-based medical science team in order to ensure coverage and support for the majority of our acute care business in the U.S.
- We have also been meeting with our other key international partners and expect to announce additional improvements to that network over 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 2018 Annual Report on Form 10-K.

### Accounting Estimates and Judgments

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

**RESULTS OF OPERATIONS**

**Three months ended March 31, 2019 compared to the three months ended March 31, 2018**

The following table presents the unaudited interim statements of operations for the three months ended March 31, 2019 and 2018:

| | Three months ended March 31, | | |
|---|---|---|---|
| | **2019** | **2018** | **Change** |
| Net revenues | $ 11,902,747 | $ 8,587,605 | $ 3,315,142 |
| Costs and expenses: | | | |
| Cost of products sold | 1,999,736 | 1,527,961 | 471,775 |
| Selling and marketing | 5,120,505 | 4,670,511 | 449,994 |
| Research and development | 1,267,601 | 1,874,939 | (607,338) |
| General and administrative | 2,670,056 | 2,330,281 | 339,775 |
| Amortization | 1,021,645 | 636,135 | 385,510 |
| Total costs and expenses | 12,079,543 | 11,039,827 | 1,039,716 |
| Operating income (loss) | (176,796) | (2,452,222) | 2,275,426 |
| Interest income | 115,861 | 82,494 | 33,367 |
| Interest expense | (60,911) | (18,302) | (42,609) |
| Income (loss) before income taxes | (121,846) | (2,388,030) | 2,266,184 |
| Income tax (expense) benefit | 81,428 | (4,159) | 85,587 |
| Net income (loss) | $ (40,418) | $ (2,392,189) | $ 2,351,771 |

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

| | Three months ended March 31, | | |
|---|---|---|---|
| | **2019** | **2018** | **Change** |
| Products: | | | |
| Acetadote | $ 849,502 | $ 1,273,764 | $ (424,262) |
| Omeclamox-Pak | 199,537 | 141,392 | 58,145 |
| Kristalose | 3,307,658 | 3,269,901 | 37,757 |
| Vaprisol | 286,676 | 93,890 | 192,786 |
| Caldolor | 1,317,074 | 1,039,747 | 277,327 |
| Ethyol | 3,091,991 | 2,256,073 | 835,918 |
| Totect | 80,896 | 412,774 | (331,878) |
| Vibativ | 2,060,195 | — | 2,060,195 |
| Other | 709,218 | 100,064 | 609,154 |
| Total net revenues | $ 11,902,747 | $ 8,587,605 | $ 3,315,142 |

*Net revenues.* Net revenues for the three months ended March 31, 2019 were $11.9 million compared to $8.6 million for the three months ended March 31, 2018, representing an increase of $3.3 million, or 39%. The increase is due primarily to net revenues associated with our newest product, Vibativ and as detailed in the table above, five of our eight marketed products experienced increases in net revenue during the quarter: Omeclamox-Pak, Kristalose, Vaprisol, Caldolor, and Ethyol. This increase was partially offset by a decrease in Totect and Acetadote net revenue compared to the prior year period.

Vaprisol revenue experienced an increase of $0.2 million during the first quarter of 2019 when compared to the prior year period due to higher sales volumes.

Ethyol revenue increased by $0.8 million for the three months ended March 31, 2019 compared to three months ended March 31, 2018 as a result of higher sales volume.

Kristalose revenue increased by 1.2% during the first quarter of 2019 when compared to the prior year period. The product's net revenue experienced an improvement in net pricing for the product.

Omeclamox-Pak revenue increased $0.1 million for the first quarter of 2019 compared to the first quarter of 2018 primarily due to higher sales volumes and improved net pricing during the period.

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 $0.4 million decrease in revenue from our Acetadote brand when compared to the prior year period as a result of generic competition.

Caldolor revenue increased $0.3 million for the three months ended March 31, 2019 primarily due to increased domestic and international sales revenue in the first quarter of 2019 compared to the first quarter of 2018. The product also experienced an improvement in net pricing.

*Cost of products sold*. Cost of products sold for the first quarter of 2019 increased $0.5 million compared to the prior year period as a result of increased sales. Cost of products sold, as a percentage of net revenues, improved to 16.8% during the three months ended March 31, 2019 compared to 17.8% during the three months ended March 31, 2018. This improvement in costs of products sold as a percentage of revenue was attributable to a change in the product sales mix, including the decrease in Totect sales, during the quarter compared to the prior year period.

*Selling and marketing*. Selling and marketing expense for the first quarter of 2019 increased $0.4 million compared to the prior year period. This increase is primarily attributable to higher royalties related to the increased product sales during the first quarter of 2019.

*Research and development*. Research and development costs for the first quarter of 2019 were $1.3 million, compared to $1.9 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. The $0.6 million decrease was the result of a lower amount of variable spending required during the period compared to the prior year period for our ongoing clinical initiatives associated with our pipeline products.

*General and administrative*. General and administrative expense for the first quarter of 2019 increased to $2.7 million from $2.3 million during the first quarter of 2018 as a result of increases in advisory, legal and professional fees during the period. A portion of these increased costs were related to our acquisition of Vibativ.

*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 March 31, 2019 and the three months ended March 31, 2018 totaled approximately $1.0 million and $0.6 million, respectively. This increase was driven primarily by the amortization of the intangible assets acquired in the Vibativ transaction.

*Income taxes*. Income tax benefit for the three months ended March 31, 2019 was $0.1 million. As a percentage of income (loss) before income taxes, the income tax benefit was 66.8% for the three months ended March 31, 2019 compared to income tax expense of 0.2% for the three months ended March 31, 2018.

As of March 31, 2019, we have approximately $44 million of net operating loss carryforwards resulting from the exercise of nonqualified stock options in 2009 that have historically been used to significantly offset future income tax obligations. Since they were generated during 2009, we have utilized these net operating loss carryforwards to pay minimal income taxes. We will continue to pay minimal income taxes during 2019 and beyond, through the continued utilization of these net operating loss carryforwards, as we are able to achieve taxable income through our operations.

## LIQUIDITY AND CAPITAL RESOURCES

### Working Capital

Our primary sources of liquidity are cash flows provided by our operations, the amounts borrowed and available under our line of credit and the cash proceeds from our initial public offering of common stock that was completed in August 2009. We believe that our internally generated cash flows, existing working capital and our line of credit, including its recent expansion to $20 million, will be adequate to finance internal growth, finance business development initiatives, and fund capital expenditures for the foreseeable future.

We invest a portion of our cash reserves in marketable securities including short-term cash investments, U.S. Treasury notes and bonds, corporate bonds, commercial paper and other marketable securities. At March 31, 2019 and December 31, 2018, we had approximately $9.7 million and $8.3 million, respectively, invested in marketable securities.

The following table summarizes our liquidity and working capital as of March 31, 2019 and December 31, 2018:

| | March 31, 2019 | December 31, 2018 |
|---|---|---|
| Cash and cash equivalents | $ 24,609,415 | $ 27,938,960 |
| Marketable securities | 9,667,073 | 8,290,679 |
| Total cash, cash equivalents and marketable securities | $ 34,276,488 | $ 36,229,639 |
| | | |
| Working capital (current assets less current liabilities) | $ 29,967,524 | $ 31,311,813 |
| Current ratio (multiple of current assets to current liabilities) | 2.1 | 2.1 |
| | | |
| Revolving line of credit availability | $ — | $ — |

The following table summarizes our net changes in cash and cash equivalents for the three months ended March 31, 2019 and March 31, 2018:

| | Three months ended March 31, | |
|---|---|---|
| | 2019 | 2018 |
| Net cash provided by (used in): | | |
| Operating activities | $ (385,733) | $ 235,589 |
| Investing activities | (1,723,388) | (11,522,126) |
| Financing activities | (1,220,424) | 1,136,645 |
| Net increase (decrease) in cash and cash equivalents | $ (3,329,545) | $ (10,149,892) |

The net $3.3 million decrease in cash and cash equivalents for the three months ended March 31, 2019 was attributable to cash used in investing, financing and operating activities. Cash used in operating activities of $0.4 million was primarily impacted by the increase in accounts receivable of $2.1 million. The use of operating cash was partially offset by the add back of non-cash expenses of depreciation and amortization and share-based compensation expense totaling $1.4 million. Cash used in investing activities included net cash invested in marketable securities of $1.3 million and additions to intangibles of $0.4 million. Our financing activities reflected the $0.7 million in cash used to repurchase shares of our common stock.

The net $10.1 million decrease in cash and cash equivalents for the three months ended March 31, 2018 was attributable to cash used in investing activities partially offset by cash provided by financing and operating activities. Cash provided by operating activities of $0.2 million was primarily impacted by changes in our working capital which provided net cash of $1.6 million, including net collections of accounts receivable of $2.1 million and non-cash expenses of depreciation and amortization and share-based compensation expense totaling $1.0 million. The generation of operating cash was offset by a net loss for the period of $2.4 million. Cash used in investing activities included net cash investment in marketable securities of $10.9 million and additions to intangibles of $0.5 million. Our financing activities included $2.2 million in net cash provided by borrowings under our line of credit offset by $1.0 million in cash used to repurchase shares of our common stock.

**Debt Agreement**

On May 10, 2019, we entered into a third amendment ("Third Amendment") to the Revolving Credit Loan Agreement, dated July 28, 2017, with Pinnacle Bank ("Pinnacle Agreement"). The Third Amendment extended the term of the Pinnacle Agreement through July 31, 2021 as well as modified certain definitions and terms of the existing financial covenants. On October 17, 2018, we entered into a second amendment ("Second Amendment") which increased the maximum aggregate principal available for borrowing under the Pinnacle Agreement to $20.0 million. For a summary of the material terms of the Pinnacle Agreement, as amended, see Note 7 to the accompanying unaudited condensed consolidated financial statements

Under the Pinnacle Agreement, we were initially subject to one financial covenant, the maintenance of a Funded Debt Ratio. On August 14, 2018 we amended the Pinnacle Agreement ("First Amendment") to replace the single financial covenant with the maintenance of either the Funded Debt Ratio or a Tangible Capital Ratio, as defined in the First Amendment. The Third Amendment modified the definition of the Funded Debt Ratio and the compliance target of the Tangible Capital Ratio. Both Third Amendment modifications were related to the Vibativ transaction. As a result of the Third Amendment, we were in compliance with the Tangible Capital Ratio financial covenant as of March 31, 2019 and expect to maintain compliance with this covenant in future periods.

**OFF-BALANCE SHEET ARRANGEMENTS**

During the three months ended March 31, 2019 and 2018, 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. Based on the $9.7 million in marketable securities outstanding at March 31, 2019, a 1% decrease in the fair value of the securities would result in a reduction in pretax net income (loss) of $0.1 million.

Based on current interest rates, we do not believe we are exposed to significant downside risk related to change in interest on our investment accounts.

The interest rate risk related to borrowings under our line of credit is based on LIBOR plus an interest rate spread. There is no LIBOR minimum and the LIBOR pricing provides for an interest rate spread of 1.75% to 2.75% (representing an interest rate of 5.2% at March 31, 2019). As of March 31, 2019, we had $20 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 three months ended March 31, 2019 and 2018. 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**

Management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15-15(e) of the Exchange Act, as of March 31, 2019. Based on that evaluation, our CEO and CFO concluded that, as of March 31, 2019, our disclosure controls and procedures are considered effective to ensure that the information required to be disclosed by the Company in reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to the Company's management, including the Company's CEO and CFO, as appropriate, to allow for timely decisions regarding required disclosure.

During the three months ended March 31, 2019, there has not been any change in our internal control over financial reporting that has materially affected, or is likely to materially affect, our internal control over financial reporting.

## PART II – OTHER INFORMATION

### Item 1. Legal Proceedings

None.

### Item 1A. Risk Factors

There have been no material changes to the information regarding risk factors that appears in the 2018 Annual Report on Form 10-K under the section titled "Risk Factors."

### 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 March 31, 2019:

| Period | Total Number of Shares (or Units) Purchased (1) | Average Price Paid per Share (or Unit) | Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs | Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (1) |
|---|---|---|---|---|
| January | 21,018 | $ 6.00 | 21,018 | $ 1,247,180 |
| February | 12,436 | 5.70 | 12,436 | 9,929,124 |
| March | 88,012 (1) | 5.76 | 88,012 | 9,422,065 |
| Total | 121,466 | | 121,466 | |

(1) Of this amount, 67,391 shares were repurchased directly through private purchases at the then-current fair market value of common stock.

### Item 5. Other Information

The following information is included for the purpose of providing the disclosures required under "Item 1.01 - Entry into a Material Definitive Agreement" of Form 8-K.

On May 10, 2019, the Company entered into a third amendment ("Third Amendment") to the Revolving Credit Loan Agreement, dated July 28, 2017, with Pinnacle Bank (“Pinnacle Agreement”). The Third Amendment extended the term of the Pinnacle Agreement through July 31, 2021 as well as modified the definitions and terms of the existing financial covenants.

Under the Pinnacle Agreement, Cumberland was initially subject to one financial covenant, the maintenance of a Funded Debt Ratio, as such term is defined in the agreement and determined on a quarterly basis. On August 14, 2018, the Company amended the Pinnacle Agreement ("First Amendment") to replace the single financial covenant with the maintenance of either the Funded Debt Ratio or a Tangible Capital Ratio, as defined in the First Amendment. The Third Amendment modified the definition of the Funded Debt Ratio and the compliance target of the Tangible Capital Ratio. Note that the description is qualified by its entirety by the amendment which is incorporated by reference as Exhibit 10.2.

**Item 6. Exhibits**

| No. | Description |
|---|---|
| 10.1 | First Amendment to Revolving Credit Note and Second Amendment to Revolving Credit Loan Agreement, dated as of October 17, 2018, by and between Cumberland Pharmaceuticals Inc. and Pinnacle Bank, incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-33637) as filed with the SEC on October 19, 2018. |
| 10.2* | Second Amendment to Revolving Credit Note and Third Amendment to Revolving Credit Loan Agreement, dated as of May 10, 2019 by and between Cumberland Pharmaceuticals Inc. and Pinnacle Bank. |
| 31.1* | Certification of Chief Executive Officer Pursuant to Rule 13-14(a) of the Securities Exchange Act of 1934 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2* | Certification of Chief Financial Officer Pursuant to Rule 13-14(a) of the Securities Exchange Act of 1934 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1** | Certification of Chief Executive and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS* | XBRL INSTANCE DOCUMENT - THE INSTANCE DOCUMENT DOES NOT APPEAR IN THE INTERACTIVE DATA FILE BECAUSE ITS XBRL TAGS ARE EMBEDDED WITHIN THE INLINE XBRL DOCUMENT. |
| 101.SCH* | XBRL TAXONOMY EXTENSION SCHEMA DOCUMENT |
| 101.CAL* | XBRL TAXONOMY EXTENSION CALCULATION LINKBASE DOCUMENT |
| 101.DEF* | XBRL TAXONOMY EXTENSION DEFINITION LINKBASE DOCUMENT |
| 101.LAB* | XBRL TAXONOMY EXTENSION LABEL LINKBASE DOCUMENT |
| 101.PRE* | XBRL TAXONOMY EXTENSION PRESENTATION LINKBASE DOCUMENT |

* Filed herewith.

** Furnished herewith.

**SIGNATURES**

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

Cumberland Pharmaceuticals Inc.

Date: May 15, 2019

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

**FIRST AMENDMENT TO REVOLVING CREDIT LOAN AGREEMENT**

THIS FIRST AMENDMENT TO REVOLVING CREDIT LOAN AGREEMENT (this "**Amendment**") is entered into as of August 14, 2018, by and between CUMBERLAND PHARMACEUTICALS INC., a Tennessee corporation (the "**Borrower**"), and PINNACLE BANK, a Tennessee banking corporation (the "**Lender**").

**RECITALS:**

A. The Borrower and the Lender entered into that certain Revolving Credit Loan Agreement (the "**Loan Agreement**") dated as of July 31, 2017. Capitalized terms not otherwise defined therein have the same meaning as set forth in the Loan Agreement.

B. The 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:

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

6.7 Funded Debt Ratio and Tangible Capital Ratio. Permit both (i) the Funded Debt Ratio of the Borrower as calculated for the Borrower and its Subsidiaries at the end of each fiscal quarter on a rolling four quarter basis to exceed 2.50 to 1.00, and (ii) the Funded Debt to Tangible Capital Ratio of the Borrower as calculated for the Borrower and its Subsidiaries to exceed forty percent (40%). For clarification, if the Borrower maintains compliance with either of the above required calculations, then the Borrower shall be in compliance with this Section 6.7 for the applicable period.

2. The following new definitions are hereby added to Section 9.1 of the Loan Agreement:

"**Funded Debt to Tangible Capital Ratio**" means the ratio, expressed as a percentage, of Funded Debt divided by Tangible Capital.

"**Tangible Capital**" means the amount equal to total shareholders' equity, *plus* Funded Debt, *less* the value of intangible assets, all of the foregoing to be determined in accordance with the financial statements and reports provided to Lender, which are to be prepared in accordance with GAAP.

3. The Loan Agreement is not amended in any other respect.

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

[signatures commence on following page]

ENTERED INTO as of the date first written above.

**BORROWER:**

CUMBERLAND PHARMACEUTICALS INC.

By: */s/ A.J. Kazimi*

A.J. Kazimi,
Chairman and Chief Executive Officer

**LENDER:**

PINNACLE BANK

By: */s/ Tim Bewley*

Tim Bewley,
Senior Vice President

[Signature Page to First Amendment to Revolving Credit Loan Agreement]

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

THIS SECOND AMENDMENT TO REVOLVING CREDIT NOTE AND THIRD AMENDMENT TO REVOLVING CREDIT LOAN AGREEMENT (this "**Amendment**") is entered into as of May 10, 2019, by and between CUMBERLAND PHARMACEUTICALS INC., a Tennessee corporation ("**Borrower**"), and PINNACLE BANK, a Tennessee banking corporation (the "**Lender**").

**RECITALS:**

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

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

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

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

1. The fifth paragraph of the Note, regarding repayment, is hereby amended and restated as follows:

This Note shall be payable as follows: (a) commencing on May 1, 2019 and continuing on the 1st day of each consecutive month thereafter through and including July 1, 2021, Borrower shall pay to the Lender all accrued and unpaid interest; and (b) this Note shall mature on July 31, 2021 (the "**Maturity Date**"), at which time Borrower shall pay to the Lender an amount equal to all outstanding principal, plus all accrued and unpaid interest and any other outstanding fees and expenses due and payable under the Loan Documents.

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

6.7 Funded Debt Ratio and Tangible Capital Ratio. Permit both (i) the Funded Debt Ratio of Borrower as calculated for Borrower and its Subsidiaries at the end of each fiscal quarter on a rolling four quarter basis to exceed 2.50 to 1.00, and (ii) the Funded Debt to Tangible Capital Ratio of Borrower as calculated for Borrower and its Subsidiaries to exceed fifty percent (50.0%). For clarification, if Borrower maintains compliance with either of the above required calculations, then Borrower shall be in compliance with this Section 6.7 for the applicable period.

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

7.6 Liquidity Cure. For a fifteen (15) day period after the occurrence of an Event of Default under Section 6.7 hereof (such Event of Default being deemed to have occurred on the date on which the Compliance Certificate for such period is required to be delivered pursuant to Section 5.1(c) hereof), Borrower may cure such Event of Default by depositing and maintaining on account with Lender a cash amount equal to all outstanding Indebtedness hereunder. Borrower may only exercise the liquidity cure described herein twice during the period beginning May 1, 2019 and ending July 31, 2021.

4. The following definitions set forth in Section 9.1 of the Loan Agreement are hereby amended and restated as follows:

"**EBITDA**" means (a) Net Income Attributable to Borrowers Shareholders, *plus* (b) to the extent deducted in determining Net Income Attributable to Borrowers Shareholders, and without duplication, the sum of (i) Interest Expense, (ii) income tax expense, (iii) depreciation expense, (iv) amortization expense, (v) Non-Cash Compensation Expense, and (vi) cost of products sold associated with the Vibativ Acquisition provided that (x) the inventory was acquired on the acquisition date, and (y) the aggregate amount of such cost of products sold shall not exceed 30% of EBITDA in any measurement period, *minus or plus*, as applicable (c) gains or losses resulting from adjustments to the fair value of the contingent consideration liability, *minus* (d) contingent consideration liability payments, as determined at each fiscal quarter end on a rolling four (4) quarter basis.

"**Maturity Date**" mean July 31, 2021.

5. The following definition of "**Vibativ Acquisition**" is hereby added to Section 9.1 of the Loan Agreement:

"**Vibativ Acquisition**" means Borrower's purchase of certain assets related to the manufacture, marketing and sale of the proprietary antibiotic, Vibativ from Theravance Biopharma Ireland Limited and Theravance Biopharma US, Inc.

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

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

8. Borrower reaffirms the terms and provisions of the Note and Loan Agreement, as amended hereby, along with the other Loan Documents, and Borrower agrees that such terms and provisions are valid and binding, enforceable in accordance with its terms and provisions, subject to no defense, counterclaim, or objection.

[signatures commence on following page]

ENTERED INTO as of the date first written above.

**BORROWER:**

CUMBERLAND PHARMACEUTICALS INC.

By: */s/ A. J. Kazimi*

A.J. Kazimi, Chief Executive Officer

**LENDER:**

PINNACLE BANK

By: */s/ Tim Bewley*

Tim Bewley, Senior Vice Presiden

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

**Exhibit 31.1**

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

I, A.J. Kazimi, certify that:

1 I have reviewed this Form 10-Q of Cumberland Pharmaceuticals Inc.;

2 Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3 Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4 The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5 The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 15, 2019 By: /s/ A.J. Kazimi

A.J. Kazimi
Chief Executive Officer

**Exhibit 31.2**

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

I, Michael Bonner, certify that:

1 I have reviewed this Form 10-Q of Cumberland Pharmaceuticals Inc.;

2 Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3 Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4 The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5 The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 15, 2019 By: /s/ Michael Bonner

Michael Bonner
Chief Financial Officer

**Exhibit 32.1**

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

In connection with the Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2019 of Cumberland Pharmaceuticals Inc. (the "Company"), as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, A.J. Kazimi, Chief Executive Officer and Michael Bonner, Chief Financial Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. section 1350), that:

1 The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2 The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ A. J. Kazimi

A.J. Kazimi
Chief Executive Officer

May 15, 2019

/s/ Michael Bonner

Michael Bonner
Chief Financial Officer

May 15, 2019