# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**WASHINGTON, DC 20549**

# FORM 10-Q

**(Mark One)**

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

**For the quarterly period ended September 30, 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.

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

| Class | Trading Symbol | Name of exchanged on which registered | Outstanding at November 6, 2019 |
|---|---|---|---|
| Common stock, no par value | CPIX | NASDAQ Global Select Market | 15,183,943 |

**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)**

| | September 30, 2019 | December 31, 2018 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 26,978,424 | $ 27,938,960 |
| Marketable securities | 2,265,839 | 8,290,679 |
| Accounts receivable, net | 8,296,672 | 7,844,249 |
| Inventories, net | 9,864,240 | 12,078,343 |
| Prepaid and other current assets | 1,992,409 | 2,963,806 |
| Total current assets | 49,397,584 | 59,116,037 |
| Non-current inventories | 15,329,920 | 15,749,000 |
| Property and equipment, net | 743,801 | 771,213 |
| Intangible assets, net | 31,040,213 | 33,655,099 |
| Goodwill | 882,000 | 784,000 |
| Deferred tax assets, net | 43,605 | 87,210 |
| Other assets | 6,328,777 | 2,531,309 |
| Total assets | $ 103,765,900 | $ 112,693,868 |
| **LIABILITIES AND EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 8,226,609 | $ 11,093,297 |
| Other current liabilities | 12,826,341 | 16,710,927 |
| Total current liabilities | 21,052,950 | 27,804,224 |
| Revolving line of credit | 20,000,000 | 20,000,000 |
| Other long-term liabilities | 11,006,022 | 9,319,143 |
| Total liabilities | 52,058,972 | 57,123,367 |
| Commitments and contingencies | | |
| Equity: | | |
| Shareholders' equity: | | |
| Common stock—no par value; 100,000,000 shares authorized; 15,231,278 and 15,481,497 shares issued and outstanding as of September 30, 2019 and December 31, 2018, respectively | 49,563,807 | 51,098,613 |
| Retained earnings | 2,169,101 | 4,746,154 |
| Total shareholders' equity | 51,732,908 | 55,844,767 |
| Noncontrolling interests | (25,980) | (274,266) |
| Total equity | 51,706,928 | 55,570,501 |
| Total liabilities and equity | $ 103,765,900 | $ 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 September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Net revenues | $ 10,371,918 | $ 8,492,530 | $ 33,855,265 | $ 27,243,859 |
| Costs and expenses: | | | | |
| Cost of products sold | 1,921,875 | 1,460,463 | 5,933,807 | 4,511,743 |
| Selling and marketing | 5,562,443 | 4,803,112 | 15,836,077 | 14,549,873 |
| Research and development | 1,278,013 | 1,306,055 | 4,003,980 | 4,631,384 |
| General and administrative | 2,422,886 | 2,067,981 | 7,621,858 | 6,732,485 |
| Amortization | 1,033,786 | 661,802 | 3,085,139 | 1,946,457 |
| Total costs and expenses | 12,219,003 | 10,299,413 | 36,480,861 | 32,371,942 |
| Operating income (loss) | (1,847,085) | (1,806,883) | (2,625,596) | (5,128,083) |
| Interest income | (50,511) | 166,220 | 195,915 | 398,420 |
| Interest expense | (64,877) | (19,199) | (216,988) | (59,520) |
| Income (loss) before income taxes | (1,962,473) | (1,659,862) | (2,646,669) | (4,789,183) |
| Income tax (expense) benefit | (4,462) | (4,159) | 72,504 | (12,477) |
| Net income (loss) | (1,966,935) | (1,664,021) | (2,574,165) | (4,801,660) |
| Net (income) loss at subsidiary attributable to noncontrolling interests | 13,267 | 20,977 | (2,888) | 58,689 |
| Net income (loss) attributable to common shareholders | $ (1,953,668) | $ (1,643,044) | $ (2,577,053) | $ (4,742,971) |
| Earnings (loss) per share attributable to common shareholders | | | | |
| - basic | $ (0.13) | $ (0.11) | $ (0.17) | $ (0.30) |
| - diluted | $ (0.13) | $ (0.11) | $ (0.17) | $ (0.30) |
| Weighted-average shares outstanding | | | | |
| - basic | 15,368,027 | 15,573,108 | 15,454,159 | 15,645,230 |
| - diluted | 15,368,027 | 15,573,108 | 15,454,159 | 15,645,230 |
| Comprehensive income (loss) attributable to common shareholders | (1,953,668) | (1,643,044) | (2,577,053) | (4,742,971) |
| Net (income) loss at subsidiary attributable to noncontrolling interests | 13,267 | 20,977 | (2,888) | 58,689 |
| Total comprehensive income (loss) | $ (1,966,935) | $ (1,664,021) | $ (2,574,165) | $ (4,801,660) |

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

| | Nine months ended September 30, | |
|---|---|---|
| | 2019 | 2018 |
| Cash flows from operating activities: | | |
| Net income (loss) | $ (2,574,165) | $ (4,801,660) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization expense | 3,278,958 | 2,108,051 |
| Deferred tax expense | 43,605 | — |
| Share-based compensation | 1,107,817 | 1,005,239 |
| Decrease in non-cash contingent consideration | (681,577) | — |
| Noncash interest expense | 36,292 | 44,117 |
| Noncash investment gains | (34,303) | (131,652) |
| Net changes in assets and liabilities affecting operating activities: | | |
| Accounts receivable | 547,577 | 1,339,974 |
| Inventories | 2,214,103 | 311,419 |
| Other current assets and other assets | 195,529 | 966,817 |
| Accounts payable and other current liabilities | (1,726,832) | (1,595,243) |
| Other long-term liabilities | (207,648) | 142,486 |
| Net cash provided by (used in) operating activities | 2,199,356 | (610,452) |
| Cash flows from investing activities: | | |
| Additions to property and equipment | (166,407) | (171,731) |
| Purchases of marketable securities | (9,627,191) | (20,851,951) |
| Proceeds from sale of marketable securities | 15,686,334 | 16,122,376 |
| Cash paid for acquisitions | (5,000,000) | — |
| Additions to intangible assets | (498,003) | (1,411,710) |
| Net cash provided by (used in) investing activities | 394,733 | (6,313,016) |
| Cash flows from financing activities: | | |
| Borrowings on line of credit | 56,000,000 | 36,000,000 |
| Repayments on line of credit | (56,000,000) | (33,800,000) |
| Proceeds from sales of common stock, net of offering costs | — | 200,909 |
| Payments of deferred offering costs | — | (248,108) |
| Payments of financing costs | (52,500) | — |
| Cash payment of contingent consideration | (908,347) | — |
| Repurchase of common shares | (2,593,778) | (2,382,968) |
| Net cash used in financing activities | (3,554,625) | (230,167) |
| Net decrease in cash and cash equivalents | (960,536) | (7,153,635) |
| Cash and cash equivalents at beginning of period | $ 27,938,960 | 45,412,868 |
| Cash and cash equivalents at end of period | $ 26,978,424 | $ 38,259,233 |
| | | |
| Supplemental non-cash operating, investing and financing activities: | | |
| Recognition of operating lease assets and liabilities through adoption of ASC 842 | $ 3,629,320 | $ — |
| Sale of subsidiary shares to noncontrolling interests | 1,000,000 | $ — |
| Repurchase of subsidiary shares from noncontrolling interests | (800,000) | $ — |
| Additions to intangible assets from final purchase price allocation | $ 148,000 | $ — |

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

| | Common stock | | | | |
|---|---|---|---|---|---|
| | **Shares** | **Amount** | **Retained earnings** | **Noncontrolling 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 |
| | | | | | |
| Balance, March 31, 2018 | 15,727,250 | $ 51,755,834 | $ 9,329,983 | $ (211,512) | $ 60,874,305 |
| Share-based compensation | 4,750 | 326,100 | — | — | 326,100 |
| Repurchase of common shares | (127,291) | (784,505) | — | — | (784,505) |
| Net loss | — | — | (720,688) | (24,762) | (745,450) |
| Balance, June 30, 2018 | 15,604,709 | $ 51,297,429 | $ 8,609,295 | $ (236,274) | $ 59,670,450 |
| | | | | | |
| Balance, June 30, 2018 | 15,604,709 | $ 51,297,429 | $ 8,609,295 | $ (236,274) | $ 59,670,450 |
| Share-based compensation | 17,434 | 339,930 | — | — | 339,930 |
| Repurchase of common shares | (66,278) | (401,747) | — | — | (401,747) |
| Net loss | — | — | (1,643,044) | (20,977) | (1,664,021) |
| Balance, September 30, 2018 | 15,555,865 15,555,865 | $ 51,235,612 | $ 6,966,251 | $ (257,251) | $ 57,944,612 |

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

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

| | Common stock | | | | |
|---|---|---|---|---|---|
| | Shares | Amount | Retained earnings | Noncontrolling 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 |
| | | | | | |
| Balance, March 31, 2019 | 15,547,517 | $ 50,759,257 | $ 4,672,276 | $ (240,806) | $ 55,190,727 |
| Share-based compensation | 8,000 | 396,548 | — | — | 396,548 |
| Repurchase of subsidiary shares from noncontrolling interest | — | (685,805) | — | (114,195) | (800,000) |
| Repurchase of common shares | (84,447) | (531,746) | — | — | (531,746) |
| Net loss | — | — | (549,507) | (17,305) | (566,812) |
| Balance, June 30, 2019 | 15,471,070 | $ 49,938,254 | $ 4,122,769 | $ (372,306) | $ 53,688,717 |
| | | | | | |
| Balance, June 30, 2019 | 15,471,070 | $ 49,938,254 | $ 4,122,769 | $ (372,306) | $ 53,688,717 |
| Share-based compensation | 6,450 | 346,835 | — | — | 346,835 |
| Sales of subsidiary shares to noncontrolling interest | — | 640,407 | — | 359,593 | 1,000,000 |
| Repurchase of common shares | (246,242) | (1,361,689) | — | — | (1,361,689) |
| Net loss | — | — | (1,953,668) | (13,267) | (1,966,935) |
| Balance, September 30, 2019 | 15,231,278 | $ 49,563,807 | $ 2,169,101 | $ (25,980) | $ 51,706,928 |

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 and nine months ended September 30, 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 and nine months ended September 30, 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.

In May 2019, the FASB issued ASU 2019-05, "Financial Instruments-Credit Losses (Topic 326): Targeted Transition Relief" which provides transition relief for ASU 2016-13 by providing entities with an alternative to irrevocably elect the fair value option for eligible financial assets measured at amortized cost upon adoption of the new credit losses standard. Certain eligibility requirements must be met, the election must be applied on an instrument-by-instrument basis, and the election is not available for either available-for-sale or held-to-maturity debt securities. As Cumberland has not yet adopted ASU 2016-13, the effective dates are the same as those in ASU 2016-13, which is January 1, 2020. The Company is in the initial stage of evaluating the impact of this new standard on its condensed consolidated financial statements and related disclosures.

In January 2017, the FASB issued ASU No. 2017-04, “Simplifying the Test for Goodwill Impairment” (ASU 2017-04). The guidance removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. As a result of the revised guidance, a goodwill impairment will be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The new standard will be effective for the Company on January 1, 2020 and will be applied prospectively. 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, corporate bonds and commercial paper. At the time of purchase, the Company classifies marketable securities as either trading securities or available-for-sale securities, depending on the intent at that time. As of September 30, 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:

| | September 30, 2019 | | | December 31, 2018 | | |
|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Total | Level 1 | Level 2 | Total |
| U.S. Treasury notes and bonds | $ — | $ — | $ — | $ 5,034,955 | $ — | $ 5,034,955 |
| Corporate bonds | — | — | — | — | 2,504,551 | 2,504,551 |
| Commercial paper | — | 2,265,839 | 2,265,839 | — | — | — |
| Short-term cash investments | — | — | — | — | 751,173 | 751,173 |
| Total fair value of marketable securities | $ — | $ 2,265,839 | $ 2,265,839 | $ 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 and nine months ended September 30, 2019 and 2018:

| | Three months ended September 30, | |
|---|---|---|
| | 2019 | 2018 |
| Numerator: | | |
| Net income (loss) attributable to common shareholders | $ (1,953,668) | $ (1,643,044) |
| Denominator: | | |
| Weighted-average shares outstanding – basic | 15,368,027 | 15,573,108 |
| Dilutive effect of other securities | — | — |
| Weighted-average shares outstanding – diluted | 15,368,027 | 15,573,108 |

| | Nine months ended September 30, | |
|---|---|---|
| | 2019 | 2018 |
| Numerator: | | |
| Net income (loss) attributable to common shareholders | $ (2,577,053) | $ (4,742,971) |
| Denominator: | | |
| Weighted-average shares outstanding – basic | 15,454,159 | 15,645,230 |
| Dilutive effect of other securities | — | — |
| Weighted-average shares outstanding – diluted | 15,454,159 | 15,645,230 |

As of September 30, 2019 and 2018, restricted stock awards and options to purchase 3,600 and 18,325 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. As discussed in Note 10, during November 2018, Cumberland entered into an agreement to acquire the global responsibility for Vibativ. The product began contributing to Cumberland's net revenue during the fourth quarter of 2018.

The Company's net revenues consisted of the following for the three and nine months ended September 30, 2019 and 2018:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Products: | | | | |
| Acetadote | $ 777,185 | $ 1,122,544 | $ 2,608,160 | $ 3,238,284 |
| Omeclamox-Pak | 116,063 | 278,017 | 794,205 | 509,358 |
| Kristalose | 2,924,237 | 3,017,803 | 9,720,434 | 9,490,901 |
| Vaprisol | 224,940 | (67,436) | 724,143 | 1,712,353 |
| Caldolor | 1,170,567 | 1,318,109 | 3,543,166 | 3,458,881 |
| Ethyol | 3,299,136 | 2,593,830 | 8,398,564 | 7,659,594 |
| Totect | 137,344 | 45,249 | 373,150 | 727,211 |
| Vibativ | 1,451,595 | — | 6,156,653 | — |
| Other | 270,851 | 184,414 | 1,536,790 | 447,277 |
| Total net revenues | $ 10,371,918 | $ 8,492,530 | $ 33,855,265 | $ 27,243,859 |

*Other Revenues*

During 2019, Cumberland executed a License and Distribution agreement with HongKong WinHealth Pharma Group Co. Limited ("WinHealth") for our Caldolor and Acetadote brands in China and Hong Kong. In conjunction with these new arrangements, the Company terminated a previous License and Distribution agreement with Gloria Pharmaceuticals Co ("Gloria Pharmaceuticals") for the two brands. In addition, we also signed a new License and Distribution agreement with DB Pharm Korea Co., Ltd. ("DB Pharm") for Vibativ in South Korea. As a result of these agreements, Cumberland recognized approximately $0.3 million of non-refundable up-front payments as other revenue in the consolidated statement of operations during the nine months ended September 30, 2019. Cumberland's performance obligation was satisfied upon entering into the agreements to license each of the products intellectual property. CET grant revenue for the three and nine months ended September 30, 2019 included in other revenue was $0.2 million and $0.9 million, respectively.

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 as a result of providing the distinct intellectual property rights for the respective international territory. These agreements also provide for 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. The contractual payments associated with the partners achievement of regulatory approvals, sales milestones and royalties on future sales are recognized as revenue upon occurrence, or at such time that the Company has a high degree of confidence that the revenue would not be reversed in a subsequent period.

**(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 September 30, 2019 and December 31, 2018, the Company has recognized and maintained cumulative charges for potential obsolescence and discontinuance losses of approximately $0.5 million and $0.1 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 September 30, 2019 and December 31, 2018. Non-current inventories also include $0.1 million and $0.8 million in Vibativ finished goods at September 30, 2019 and December 31, 2018, respectively. During 2019, Cumberland also obtained $0.3 million in non-current inventory for API related to its ifetroban clinical initiatives.

The Company's net inventories consisted of the following:

| | September 30, 2019 | December 31, 2018 |
|---|---|---|
| Raw materials and work in process | $ 19,176,660 | $ 18,378,450 |
| Consigned inventory | 723,324 | 937,006 |
| Finished goods, net of reserves | 5,294,176 | 8,511,887 |
| Total inventories | 25,194,160 | 27,827,343 |
| less non-current inventories | (15,329,920) | (15,749,000) |
| Total inventories classified as current | $ 9,864,240 | $ 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 September 30, 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 3.5 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 September 30, 2019, the Company recorded the following on the Condensed Consolidated Balance Sheet:

| Right-of-Use Assets | Balance Sheet Classification | September 30, 2019 |
|---|---|---|
| Operating lease right-of-use assets | Other non-current assets | $ 3,047,283 |
| Total | | $ 3,047,283 |

| Lease Liabilities | Balance Sheet Classification | September 30, 2019 |
|---|---|---|
| Current: | | |
| Operating lease liabilities | Other current liabilities | $ 897,506 |
| Noncurrent: | | |
| Operating lease liabilities | Other long-term liabilities | 2,315,761 |
| Total | | $ 3,213,267 |

| Maturity of Leases Liabilities at September 30, 2019 | Operating Leases |
|---|---|
| 2019 | $ 282,646 |
| 2020 | 1,120,067 |
| 2021 | 1,144,889 |
| 2022 | 1,019,313 |
| 2023 | 92,477 |
| After 2023 | — |
| Total lease payments | 3,659,392 |
| Less: Interest | (446,125) |
| Present value of lease liabilities | $ 3,213,267 |

**(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 nine months ended September 30, 2019 and September 30, 2018, the Company repurchased 452,155 shares and 365,648 shares, respectively, of common stock for approximately $2.6 million and $2.4 million, respectively.

*Share purchases and sales*

During the Company's March 2019 trading window, several members of Cumberland's Board of Directors entered into share purchase agreements of the Company's stock pursuant to Rule 10b-18 of the Securities Exchange Act of 1934. These purchases are designed to increase ownership in the Company by the members of the Board. During the March 2019 trading window, one member of the Board of Directors entered into a share sale agreement, as required by a policy change by his employer, which prohibits his ownership in a pharmaceutical company. The policy change did not impact his ability to serve on the Company's Board of Directors. This Board member sold 117,729 Cumberland shares during the second and third quarters of 2019, representing the majority of his holdings.

*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 nine months ended September 30, 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 nine months ended September 30, 2019.

*Restricted Share Grants*

During the nine months ended September 30, 2019, and September 30, 2018, the Company issued 225,869 shares and 233,330 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).

*Cumberland Emerging Technologies*

In April 2019, Cumberland Emerging Technologies ("CET"), our majority-owned subsidiary, entered into an agreement with WinHealth whereby WinHealth will make a $1 million investment through the purchase of shares of CET stock. As part of the agreement, WinHealth obtained a Board position at CET and the first opportunity to license CET products for the Chinese market. In connection with WinHealth's investment in CET, Cumberland also made an additional $1 million investment in CET. Cumberland purchased additional CET shares through contribution of $0.3 million in cash and a conversion of $0.7 million in intercompany loans payable. Upon completion of the additional investment by WinHealth and Cumberland, Gloria Pharmaceuticals agreed to return it's shares in CET in exchange for consideration of $0.8 million.

*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, including the definition of the Funded Debt Ratio and the compliance target of the Tangible Capital Ratio. Both Third Amendment modifications were related to the Vibativ transaction. Under the Pinnacle Agreement, Cumberland was initially subject to one financial covenant, the maintenance of a Funded Debt Ratio, as such term is defined in the agreement and determined on a quarterly basis. On August 14, 2018, the Company amended the Pinnacle Agreement ("First Amendment") to replace the single financial covenant with the maintenance of either the Funded Debt Ratio or a Tangible Capital Ratio, as defined in the First Amendment. The Company achieved compliance with the Tangible Capital Ratio financial covenant as of September 30, 2019 through the utilization of the covenant cure section of the Pinnacle Agreement.

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. 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.

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 4.78% at September 30, 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.

**(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.

As of September 30, 2019, the Company has approximately $44.1 million of net operating loss carryforwards resulting from the exercise of nonqualified stock options that have historically been used to significantly offset income tax obligations. The Company expects it will continue to pay minimal income taxes during 2019 and beyond, through the continued utilization of these net operating loss carryforwards, on any taxable income generated from our 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 ADDITIONS AND EXPECTED RETURN OF PRODUCT RIGHTS**

*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. Cumberland expects to deduct the goodwill acquired in the acquisition for tax purposes.

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

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

| | | |
|---|---|---|
| Consideration: | | |
| Cash paid at closing | $ | 20,000,000 |
| Cash payment during 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 | | (908,347) |
| Change in fair value of contingent consideration included in operating expenses | | (681,577) |
| Contingent consideration earned and accrued in operating expenses | | 560,128 |
| Balance at September 30, 2019 | $ | 8,620,204 |

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 $6.4 million.

*Ethyol and Totect*

During May 2019, Cumberland entered into a Dissolution Agreement with Clinigen Healthcare Limited ("Agreement") in which the Company will return the exclusive rights to commercialize Ethyol and Totect in the United States to Clinigen. The Agreement originally resulted in a transition from the Company's current arrangement with Clinigen effective September 30, 2019. In early September 2019, Clinigen and Cumberland completed an Amendment to the Agreement whereby the transition date was changed to late December 2019. Under the terms of the agreement, Cumberland will no longer be involved directly or indirectly with the distribution, marketing and promotion of either Ethyol or Totect or any competing products. In exchange for the return of these product license rights and not competing with either product, Cumberland will receive $5 million in financial consideration paid over the two-years following the transition date.

**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 and gastroenterology. These medical specialties are characterized by relatively concentrated prescriber bases that we believe can be penetrated effectively by small, targeted sales forces. Cumberland is dedicated to providing innovative products that improve the quality of care for patients and address unmet or poorly met medical needs. We promote our approved products through our hospital and field sales forces in the United States and are establishing a network of international partners to bring our medicines to patients in their countries.

Our portfolio of FDA approved brands includes:

- **Acetadote®** (*acetylcysteine*) Injection, for the treatment of acetaminophen poisoning;
- **Caldolor®** (*ibuprofen*) Injection, for the treatment of pain and fever;
- **Kristalose®** (*lactulose*) for Oral Solution, a prescription laxative, for the treatment of chronic and acute constipation;
- **Omeclamox®-Pak**, (*omeprazole, clarithromycin, and amoxicillin*) for the treatment of Helicobacter pylori (*H. pylori*) infection and related duodenal ulcer disease;
- **Vaprisol®** (*conivaptan*) Injection, to raise serum sodium levels in hospitalized patients with euvolemic and hypervolemic hyponatremia;
- **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.

We have submitted a New Drug Application for the approval of **RediTrex™** (methotrexate) Injection, for the treatment of active rheumatoid, juvenile idiopathic and severe psoriatic arthritis, as well as disabling psoriasis.

Additionally, Phase II clinical studies are underway evaluating our ifetroban product candidate in patients with cardiomyopathy associated with Duchenne Muscular Dystrophy ("DMD"), a rare and fatal genetic neuromuscular disease; Systemic Sclerosis ("SSc"), the deadliest autoimmune disease; and Aspirin-Exacerbated Respiratory Disease ("AERD"), a respiratory disease involving chronic asthma and nasal polyposis that is worsened by aspirin.

The Company has also completed Phase II clinical programs with ifetroban in patients with Hepatorenal Syndrome ("HRS"), a life-threatening condition involving reduced liver function and progressive kidney failure, and patients with Portal Hypertension ("PH"), a potentially life-threatening complication of liver cirrhosis, and is awaiting results from the other Phase II studies before determining the development plan for this new chemical entity.

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 poorly met 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 co-promotion partners that can complement our capabilities and enhance the opportunity for our brands. Our co-promotion arrangements with Poly Pharmaceuticals, Inc. and Foxland Pharmaceuticals, Inc allow us to expand current promotional support for Kristalose across the United States.

**Build an international contribution to our business.** We have established our own commercial capabilities, including two sales divisions to address 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 continue to use cash flow from operations 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**

**Strategic Review Update**

Earlier this year, we announced a strategic review of our brands, capabilities, and international partners. This review followed our accelerated business development initiative, which resulted in a series of transactions. Because of that progress, we felt that it was prudent to take a fresh look at our product portfolio, partners, and organization to ensure we have the proper focus and capabilities. As a result, we:

- Expanded our international arrangements with several new agreements, including a license with WinHealth Pharma for Vibativ in China and a license with R-Pharma JSC for Vibativ for the Russian market.
- Added personnel to our corporate, sales, and medical teams.

During the third quarter we:

- Completed the assignment and amendment of a Commercialization Agreement with Dr. Reddy's Laboratories Limited ("Dr. Reddy's") for the registration and distribution of Vibativ in India. Dr. Reddy's is a multinational pharmaceutical company based in Hyderabad, India. The company currently markets over 190 medications through their commercial operations in over 35 countries. Combined with their extensive network of manufacturing capabilities, Dr. Reddy's generated over $2.2 billion in sales during their 2018 – 2019 fiscal year.
- Extended the arrangements with Clinigen for Ethyol and Totect. On May 13, 2019, a Dissolution of the Strategic Alliance and underlying U.S. In-Licensing agreements for Ethyol and Totect with Clinigen Healthcare Limited was executed. The Agreement provided for a conclusion of the Company's current arrangements with Clinigen effective September 30, 2019. In early September 2019, Clinigen and Cumberland completed an Amendment to the Agreement whereby the transition date has changed to late December 2019. Under the terms of the Agreement, Cumberland will no longer distribute Ethyol or Totect after the transition date and will receive $5 million in financial consideration from Clinigen, paid over a two-year period.
- Agreed to conclude our co-promotion agreement with Piramal Critial Care effective November 2, 2019. Piramal had been promoting our Caldolor and Vaprisol in hospitals that we do not cover. A transition plan has been agreed and implemented to return those accounts from Piramal to Cumberland.

**RediTrex™**

In November 2018, the Company completed and filed with the U.S. Food and Drug Administration ("FDA"), a New Drug Application ("NDA") for its methotrexate product line proposing the brand name Reditrex™. These products are designed for the treatment of adult and pediatric patients with rheumatoid arthritis, as well as adults with psoriasis.

In January 2019, the FDA determined that the application was complete and notified us of their acceptance for its review, setting September 2019 as the Prescription Drug User Fee ("PDUFA") action date for an approval decision. Since that time, the Company has had a number of communications with the FDA and addressed their questions through multiple amendments that were submitted to the application.

On August 22, 2019, the FDA sent us a goal extension letter in order to provide them with additional time to review the application with a new PDUFA action date of early December 2019.

**Vibativ Clinical Manuscript**

During the third quarter, a new study was published revealing the superiority of Vibativ (telavancin) over vancomycin in select patients with bacterial pneumonia. Study results were published in *Infectious Diseases and Therapy*, and it showed numerically superior cure rates of telavancin compared to vancomycin within a subset of patients who were enrolled in phase 3 ATTAIN trials and had hospital-acquired pneumonia caused by bacteria with low susceptibility to vancomycin.

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. In November 2018, Cumberland reached an agreement to acquire Vibativ from Theravance Biopharma and assume global responsibility for the product.

**Caldolor**

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. In August 2018, we received a complete response from the FDA outlining additional quality and nonclinical data needed for the application's approval. In September 2018, the Company submitted an amendment to our application containing additional quality and nonclinical data.

In January 2019, the FDA approved the application, and in April 2019, the Company began initial shipments of the product to select customers. During the third quarter, there was a growing demand for the product from these select accounts, and a full-scale launch of this next generation product is planned for early 2020.

In addition, we completed a submission to the FDA an application in support of an update to our Caldolor approval that included new geriatric, shortened infusion, pediatric, and safety data. Aiming to further expand the product's label, we provided important data generated from our clinical studies regarding an optimal infusion time, additional safety information, as well as geriatric and pediatric administration. The revised label will also include class label update on the use of NSAIDs with aspirin.

In early September 2019, the FDA informed us that our submission was not accepted for their review because of the number of new claims. The FDA recommended splitting up the submission into several separate submissions, each containing a single proposed labeling claim or group of related labeling claims, with additional data in support of each claim. We are evaluating the FDA's response. They have offered a Type A meeting to discuss their recommendations, which we intend to schedule.

Meanwhile, we completed enrollment in our study of Caldolor in newborns with ages ranging from birth to six months of age. Once the data gathering and evaluation is complete, we will provide top-line results from this trial.

**Ifetroban**

We have been evaluating our ifetroban product candidate in a series of clinical studies. We have completed three pilot Phase II studies involving 1) patients suffering from hepatorenal syndrome, a life-threatening condition involving liver and kidney failure, 2) patients with portal hypertension associated with chronic liver disease and 3) patients suffering from aspirin-exacerbated respiratory disease, a severe form of asthma. A follow-up Phase II study is currently underway for this asthma indication. In addition, we are currently evaluating ifetroban in a pilot Phase II study of patients with systemic sclerosis or scleroderma, a debilitating autoimmune disorder characterized by diffuse fibrosis of the skin and internal organs.

On September 24, 2019, Cumberland announced U.S. Food and Drug Administration ("FDA") Orphan Drug Grant funding for a new Phase II clinical program. The Company has initiated the clinical development of ifetroban for the treatment of cardiomyopathy associated with Duchenne Muscular Dystrophy (DMD). Based on pre-clinical findings, the FDA has cleared Cumberland's application to study ifetroban in DMD patients, 7 years of age and older. In addition, Cumberland has been awarded just over $1 million in funding from the FDA through their Orphan Drug Grant program to support this Phase II DMD clinical study. It's the first DMD clinical study approved for FDA Orphan Product Development funding.

DMD is a rare, fatal, genetic neuromuscular disease and is characterized by the progressive loss of muscle which results in deterioration of the skeletal, heart and lung muscles. This deterioration leads to loss of movement and wheelchair dependency. Heart muscle disease is now the leading cause of death in patients with DMD. There is currently no universally effective treatment for the cardiomyopathy associated with DMD.

Additional pilot studies of ifetroban are underway including several investigator-initiated trials. We are awaiting further study results before deciding on the best path for approval for ifetroban, our first new chemical entity.

**New Hospital Product Candidate**

Cumberland was responsible for the formulation, development and FDA approval of both Acetadote and Caldolor. Our Medical Advisory Board has helped us identify additional opportunities that address unmet or poorly met medical needs. As a result, Cumberland has successfully designed, formulated and completed the preclinical studies for a cholesterol reducing agent for use in the hospital setting. During 2017, we completed a Phase I study which defined the pharmacokinetic properties and provided a favorable safety profile for this new product candidate. The study results and a proposed clinical development plan were discussed with the FDA and, as a result, a Phase II study has been initiated.

**New H. Pylori Product**

On November 4, 2019, RedHill Biopharma Ltd. announced that the FDA had approved their Talicia® product for treatment of H. pylori infection in adults. The product combines omeprazole, amoxicillin and rifabutin into four delayed-release capsules, dosed every eight hours for fourteen days. It will be a new competitor to our Omeclamox® -Pak brand. RedHill expects to launch the product in the U.S during the first quarter of 2020.

**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, fair value of contingent consideration liability, share-based compensation, research and development expenses and intangible assets.

**RESULTS OF OPERATIONS**

**Three months ended September 30, 2019 compared to the three months ended September 30, 2018**

The following table presents the unaudited interim statements of operations for the three months ended September 30, 2019 and 2018:

| | Three months ended September 30, | | |
|---|---|---|---|
| | **2019** | **2018** | **Change** |
| Net revenues | $ 10,371,918 | $ 8,492,530 | $ 1,879,388 |
| Costs and expenses: | | | |
| Cost of products sold | 1,921,875 | 1,460,463 | 461,412 |
| Selling and marketing | 5,562,443 | 4,803,112 | 759,331 |
| Research and development | 1,278,013 | 1,306,055 | (28,042) |
| General and administrative | 2,422,886 | 2,067,981 | 354,905 |
| Amortization | 1,033,786 | 661,802 | 371,984 |
| Total costs and expenses | 12,219,003 | 10,299,413 | 1,919,590 |
| Operating income (loss) | (1,847,085) | (1,806,883) | (40,202) |
| Interest income | (50,511) | 166,220 | (216,731) |
| Interest expense | (64,877) | (19,199) | (45,678) |
| Income (loss) before income taxes | (1,962,473) | (1,659,862) | (302,611) |
| Income tax (expense) benefit | (4,462) | (4,159) | (303) |
| Net income (loss) | $ (1,966,935) | $ (1,664,021) | $ (302,914) |

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

| | Three months ended September 30, | | |
|---|---|---|---|
| | **2019** | **2018** | **Change** |
| Products: | | | |
| Acetadote | $ 777,185 | $ 1,122,544 | $ (345,359) |
| Omeclamox-Pak | 116,063 | 278,017 | (161,954) |
| Kristalose | 2,924,237 | 3,017,803 | (93,566) |
| Vaprisol | 224,940 | (67,436) | 292,376 |
| Caldolor | 1,170,567 | 1,318,109 | (147,542) |
| Ethyol | 3,299,136 | 2,593,830 | 705,306 |
| Totect | 137,344 | 45,249 | 92,095 |
| Vibativ | 1,451,595 | — | 1,451,595 |
| Other | 270,851 | 184,414 | 86,437 |
| Total net revenues | $ 10,371,918 | $ 8,492,530 | $ 1,879,388 |

*Net revenues.* Net revenues for the three months ended September 30, 2019 were $10.4 million, an increase of 22% over the $8.5 million for the three months ended September 30, 2018. The increase was due primarily to our newest product, Vibativ, which delivered $1.5 million in net revenue. As detailed in the table above, net revenue increased for three of our marketed products: Vaprisol, Ethyol and Totect during the quarter. These increases were partially offset by the decreases in Acetadote, Omeclamox-Pak, Kristalose and Caldolor net revenue.

Ethyol revenue increased by $0.7 million for the three months ended September 30, 2019 compared to three months ended September 30, 2018. This 27.2% increase is primarily a result of higher sales volume and improved net pricing of the product.

Vaprisol revenue was $0.2 million for the third quarter of 2019, an increase of net sales of $0.3 million compared to the third quarter of 2018. The revenue growth is a result of a 53% increase in gross sales and a decrease in expired product returns in the current period compared to the prior year period.

Kristalose revenue decreased by $0.1 million or 3% during the third quarter of 2019 when compared to the prior year period. The decrease was primarily the result of lower sales volume.

Omeclamox-Pak revenue decreased $0.2 million for the third quarter of 2019 compared to the third quarter of 2018 primarily due to higher expired product returns, partially offset by an increase in sales volume.

Acetadote revenue includes net sales of our Acetadote brand and our share of net sales from our Authorized Generic. During the quarter, there was a decrease of $0.3 million in the product's revenue when compared to the prior year period as a result of lower sales volumes, partially offset by improved net pricing.

Caldolor revenue was $1.2 million for the third quarter of 2019, a decrease of $0.1 million compared to the same period last year. While there were higher domestic shipments of the product and improved net pricing, these changes were offset by a reduction in international shipments of Caldolor when compared to the prior year period.

*Cost of products sold*. Cost of products sold for the third 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, were 18.5% during the three months ended September 30, 2019 compared to 17.2% during the three months ended September 30, 2018. This change in costs of products sold as a percentage of revenue was attributable to a change in the product sales mix, including the sales of Vibativ.

*Selling and marketing*. Selling and marketing expense for the third quarter of 2019 increased $0.8 million compared to the prior year period. This increase is primarily attributable to higher royalties related to the increased product sales during the third quarter of 2019.

*Research and development*. Research and development costs were $1.3 million for the third quarter of 2019 and for the same period last year. A portion of our research and development costs is variable based on the number of trials, study sites, cost of the per patient study protocol and patients involved in the development of our new product candidates. We continue to fund our ongoing clinical initiatives associated with our pipeline products.

*General and administrative*. General and administrative expense for the third quarter of 2019 increased to $2.4 million from $2.1 million during the third quarter of 2018 as a result of increases in advisory, legal, professional fees and compensation and benefits, including non-cash stock based compensation, 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 September 30, 2019 and the three months ended September 30, 2018 totaled approximately $1.0 million and $0.7 million, respectively. This increase was driven primarily by the amortization of the intangible assets acquired in the Vibativ transaction.

*Income taxes*. Income tax expense for the three months ended September 30, 2019 as a percentage of income (loss) before income taxes was 0.2% for the three months ended September 30, 2019 compared to 0.3% for the three months ended September 30, 2018.

As of September 30, 2019, we had approximately $44 million of net operating loss carryforwards resulting from the exercise of nonqualified stock options that have historically been used to significantly offset income tax obligations. We expect to continue to pay minimal income taxes during 2019 and beyond, through the continued utilization of these net operating loss carryforwards, on any taxable income generated from our operations.

**Nine months ended September 30, 2019 compared to the nine months ended September 30, 2018**

The following table presents the unaudited interim statements of operations for the nine months ended September 30, 2019 and 2018:

| | Nine months ended September 30, | | |
|---|---|---|---|
| | 2019 | 2018 | Change |
| Net revenues | $ 33,855,265 | $ 27,243,859 | $ 6,611,406 |
| Costs and expenses: | | | |
| Cost of products sold | 5,933,807 | 4,511,743 | 1,422,064 |
| Selling and marketing | 15,836,077 | 14,549,873 | 1,286,204 |
| Research and development | 4,003,980 | 4,631,384 | (627,404) |
| General and administrative | 7,621,858 | 6,732,485 | 889,373 |
| Amortization | 3,085,139 | 1,946,457 | 1,138,682 |
| Total costs and expenses | 36,480,861 | 32,371,942 | 4,108,919 |
| Operating income (loss) | (2,625,596) | (5,128,083) | 2,502,487 |
| Interest income | 195,915 | 398,420 | (202,505) |
| Interest expense | (216,988) | (59,520) | (157,468) |
| Income (loss) before income taxes | (2,646,669) | (4,789,183) | 2,142,514 |
| Income tax (expense) benefit | 72,504 | (12,477) | 84,981 |
| Net income (loss) | $ (2,574,165) | $ (4,801,660) | $ 2,227,495 |

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

| | Nine months ended September 30, | | |
|---|---|---|---|
| | 2019 | 2018 | Change |
| Products: | | | |
| Acetadote | $ 2,608,160 | $ 3,238,284 | $ (630,124) |
| Omeclamox-Pak | 794,205 | 509,358 | 284,847 |
| Kristalose | 9,720,434 | 9,490,901 | 229,533 |
| Vaprisol | 724,143 | 1,712,353 | (988,210) |
| Caldolor | 3,543,166 | 3,458,881 | 84,285 |
| Ethyol | 8,398,564 | 7,659,594 | 738,970 |
| Totect | 373,150 | 727,211 | (354,061) |
| Vibativ | 6,156,653 | — | 6,156,653 |
| Other | 1,536,790 | 447,277 | 1,089,513 |
| Total net revenues | $ 33,855,265 | $ 27,243,859 | $ 6,611,406 |

*Net revenues.* Net revenues for the nine months ended September 30, 2019 were $33.9 million, an increase of $6.6 million, or 24% compared to $27.2 million for the nine months ended September 30, 2018. The increase was due primarily to our newest product, Vibativ, which delivered $6.2 million in net revenue. As detailed in the table above, net revenue increased for four of our marketed products: Omeclamox-Pak, Kristalose, Caldolor and Ethyol during the nine months ended September 30, 2019. These increases were partially offset by the decreases to Acetadote, Vaprisol and Totect net revenue.

Kristalose revenue increased by 2% or $0.2 million during the nine months ended September 30, 2019. The product's net revenue was positively impacted by lower managed care rebates, resulting in improved net pricing.

Caldolor revenue experienced an increase of $0.1 million during the nine months ended September 30, 2019 compared to the same period last year. This 2% positive change in revenue in the nine months ended September 30, 2019 compared to the prior year period was the result of a 20% increase domestic shipments of the product and improved net pricing. These changes were partially offset by a reduction in international shipments of Caldolor when compared to the prior year period.

Omeclamox-Pak revenue increased $0.3 million during the nine months ended September 30, 2019 compared to the prior year, primarily due to an increase in sales volumes and improved net pricing during the period. This improvement in net pricing included a decrease in managed care percentage for the current year.

Ethyol revenue was $8.4 million for the nine months ended September 30, 2019 and $7.7 million for the nine months ended September 30, 2018. The product's $0.7 million increase was the result of a 7% increase in gross sales and a decrease in chargebacks that resulted in an improvement in net pricing.

Acetadote revenue includes net sales of our Acetadote brand and our share of net sales from our Authorized Generic. During the nine months ended September 30, 2019 the Acetadote net revenue decreased $0.6 million as a result of lower sales volumes.

Vaprisol revenue decreased $1.0 million during the nine months ended September 30, 2019 compared to the prior year period primarily due to decreased sales volume. The prior year period sales were higher as a result of the arrival of a new lot of the product during April 2018 resolving temporary supply issues associated with the product.

Totect revenue decreased to $0.4 million during the nine months ended September 30, 2019. We began shipments of Totect during a national shortage of dexrazoxane, resulting in strong initial demand for the product. Following our launch, supplies of dexrazoxane became available from competing suppliers, all with labeling for the cardiac indication. Totect is the only dexrazoxane available in the U.S. FDA approved for the extravasation indication.

Other revenue during the nine months ended September 30, 2019 includes $0.4 million in revenue related to non-refundable up-front payments associated with new agreements with International partners as well as $0.9 million in CET grant revenue.

*Cost of products sold*. Cost of products sold for the nine months ended September 30, 2019 and nine months ended September 30, 2018 were $5.9 million and $4.5 million, respectively. Cost of products sold, as a percentage of net revenues were 17.5% compared to 16.6% during the same period for the prior year. This change in costs of products sold as a percentage of revenue was attributable to a change in the product sales mix, including the sales of Vibativ.

*Selling and marketing*. Selling and marketing expenses for the nine months ended September 30, 2019 were $15.8 million, compared to $14.5 million for the prior year period, representing an increase of approximately $1.3 million or 9% This increase was attributable to increased royalties related to product sales. There were also increases in sales and promotional spending during the nine months ended September 30, 2019 to promote Vibativ, our newest brand.

*Research and development*. Research and development costs for the nine months ended September 30, 2019 were $4.0 million, compared to $4.6 million for the same period last year, representing a decrease of approximately $0.6 million. A portion of our research and development costs is variable based on the number of trials, study sites and patients involved in the development of our product candidates. The decrease was primarily the result of lower expenditures in our ongoing clinical initiatives associated with our pipeline products as well as decreases in our FDA fees.

*General and administrative*. General and administrative expenses were $7.6 million for the nine months ended September 30, 2019, compared to $6.7 million during the same period last year. The $0.9 million increase from the same period for the prior year was primarily driven by an increase in compensation and benefits, including non-cash stock based compensation and deferred compensation.

*Amortization.* Amortization expense is the ratable use of our capitalized intangible assets including product and license rights, patents, trademarks and patent defense costs. Amortization for the nine months ended September 30, 2019 totaled approximately $3.1 million, which was an increase of $1.1 million over the same period for the prior year. The increase in expense was attributable to the amortization of additional product rights and capitalized patents, including those assets associated with the Vibativ acquisition.

*Income taxes*. Income tax benefit for the nine months ended September 30, 2019 as a percentage of income (loss) before income taxes was 2.7%. This is compared to income tax expense as a percentage of loss before income taxes of 0.3% for the nine months ended September 30, 2018.

## 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 and commercial paper. At September 30, 2019 and December 31, 2018, we had approximately $2.3 million and $8.3 million, respectively, invested in marketable securities.

The following table summarizes our liquidity and working capital as of September 30, 2019 and December 31, 2018:

| | September 30, 2019 | December 31, 2018 |
|---|---|---|
| Cash and cash equivalents | $ 26,978,424 | $ 27,938,960 |
| Marketable securities | 2,265,839 | 8,290,679 |
| Total cash, cash equivalents and marketable securities | $ 29,244,263 | $ 36,229,639 |
| | | |
| Working capital (current assets less current liabilities) | $ 28,344,634 | $ 31,311,813 |
| Current ratio (multiple of current assets to current liabilities) | 2.3 | 2.1 |
| | | |
| Revolving line of credit availability | $ — | $ — |

The following table summarizes our net changes in cash and cash equivalents for the nine months ended September 30, 2019 and September 30, 2018:

| | Nine months ended September 30, | |
|---|---|---|
| | 2019 | 2018 |
| Net cash provided by (used in): | | |
| Operating activities | $ 2,199,356 | $ (610,452) |
| Investing activities | 394,733 | (6,313,016) |
| Financing activities | (3,554,625) | (230,167) |
| Net decrease in cash and cash equivalents | $ (960,536) | $ (7,153,635) |

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

The net $7.2 million decrease in cash and cash equivalents for the nine months ended September 30, 2018 was attributable to cash used in investing, financing and operating activities. Cash used in operating activities of $0.9 million was primarily impacted by the net loss for the period of $4.8 million. This use of cash was offset by changes in our working capital which provided net cash of $0.9 million, including net collections of accounts receivable of $1.3 million. The use of operating cash was further offset by the add back of non-cash expenses of depreciation and amortization and share-based compensation expense totaling $3.1 million. Cash used in investing activities included net cash invested in marketable securities of $4.7 million and additions to intangibles of $1.2 million. Our financing activities included $2.2 million in net cash provided by borrowings under our line of credit offset by $2.4 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. We were in compliance with the Tangible Capital Ratio financial covenant as of September 30, 2019 through utilization of the covenant cure section of the Pinnacle Agreement. We expect to maintain compliance with the Tangible Capital Ratio financial covenant in future periods.

**OFF-BALANCE SHEET ARRANGEMENTS**

During the nine months ended September 30, 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 $2.3 million in marketable securities outstanding at September 30, 2019, a 1% decrease in the fair value of the securities would result in a reduction in pretax net income (loss) of less than $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 4.78% at September 30, 2019). As of September 30, 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 nine months ended September 30, 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 September 30, 2019. Based on that evaluation, our CEO and CFO concluded that, as of September 30, 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 September 30, 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 September 30, 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) |
|---|---|---|---|---|
| July | 84,067 | $ 5.92 | 497,272 | $ 8,393,047 |
| August | 43,682 | 5.59 | 244,324 | 8,148,723 |
| September | 118,493 (1) | 5.23 | 620,093 | 7,528,630 |
| Total | 246,242 | | 1,361,689 | |

(1) Of this amount, 18,892 shares were repurchased directly through private purchases at the then-current fair market value of common stock.

**Item 6. Exhibits**

| No. | Description |
|---|---|
| 31.1* | Certification of Chief Executive Officer Pursuant to Rule 13-14(a) of the Securities Exchange Act of 1934 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2* | Certification of Chief Financial Officer Pursuant to Rule 13-14(a) of the Securities Exchange Act of 1934 as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1** | Certification of Chief Executive and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS* | XBRL INSTANCE DOCUMENT - THE INSTANCE DOCUMENT DOES NOT APPEAR IN THE INTERACTIVE DATA FILE BECAUSE ITS XBRL TAGS ARE EMBEDDED WITHIN THE INLINE XBRL DOCUMENT. |
| 101.SCH* | XBRL TAXONOMY EXTENSION SCHEMA DOCUMENT |
| 101.CAL* | XBRL TAXONOMY EXTENSION CALCULATION LINKBASE DOCUMENT |
| 101.DEF* | XBRL TAXONOMY EXTENSION DEFINITION LINKBASE DOCUMENT |
| 101.LAB* | XBRL TAXONOMY EXTENSION LABEL LINKBASE DOCUMENT |
| 101.PRE* | XBRL TAXONOMY EXTENSION PRESENTATION LINKBASE DOCUMENT |

* Filed herewith.

** Furnished herewith.

**SIGNATURES**

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

Cumberland Pharmaceuticals Inc.

Date: November 13, 2019

By: /s/ Michael Bonner

Michael Bonner

Chief Financial Officer

**Exhibit 31.1**

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

I, A.J. Kazimi, certify that:

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

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

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

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

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

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

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

November 13, 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.

November 13, 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 September 30, 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

November 13, 2019

/s/ Michael Bonner

Michael Bonner

Chief Financial Officer

November 13, 2019