2011 Annual Report

OUR STRATEGIC FOCUS:

EXPAND, ACQUIRE, DEVELOP AND IDENTIFY

These are the four key elements
of our growth strategy.
Cumberland Pharmaceuticals is a
unique company with quality products that
deliver real patient solutions every day.

EXPAND

CUMBERLAND SEEKS TO MAXIMIZE ITS NEAR TERM OPPORTUNITIES BY BUILDING AND GROWING ITS BRANDED PRESCRIPTION PRODUCTS IN THE U.S. WE BELIEVE THAT EXPLORING OPPORTUNITIES TO EXPAND THE MARKET POTENTIAL FOR OUR EXISTING COMMERCIAL STAGE PRODUCTS REPRESENTS OUR LOWEST RISK GROWTH STRATEGY.

The Company is continually evaluating new opportunities to further the clinical development of our products, whether by exploring new potential indications to expand labeling and help new patient populations or by developing new clinical data to further support our existing markets and the efforts of our commercial organization.

The Company focuses on the hospital acute care and gastroenterology market segments that both feature concentrated prescriber bases. Our sales and marketing efforts are focused on expanding our reach within the medical community and keeping healthcare providers informed of how our products are able to improve the quality of care for their patients. The combination of our ongoing development activities and marketing efforts drives the success of our products.

We own the worldwide rights to all our brands. While Cumberland's commercial capabilities are focused on the U.S. market, our business development team is actively pursuing opportunities to make our brands available to patients in markets around the globe.

Our primary mission is to improve upon patient care with products that offer clear advantages over existing treatments. We also strive to deliver solutions that may help reduce costs for healthcare providers and ultimately, patients.

26%

26% Compound annual growth rate for Acetadote® since its introduction in 2004.

International

Three international commercial agreements signed in 2011 for Taiwan, Malaysia and Dubai (U.A.E.).

ACQUIRE

OUR SALES AND MARKETING TEAM HAS COMMERCIALIZED ALL THREE OF OUR FDA APPROVED BRANDS. A SECOND COMPONENT OF OUR GROWTH STRATEGY IS TO ACQUIRE APPROVED BRANDS THAT SERVE PATIENT POPULATIONS THAT OUR SALES AND MARKETING TEAM CAN EFFECTIVELY REACH.

We seek proprietary products that provide a differentiated benefit to patients. In addition, we target products that could benefit from the promotional capabilities of our sales and marketing organization or that could be expanded to help new patient groups through the efforts of our development team.

Where appropriate, Cumberland is poised to acquire and negotiate rights to those products to support and commercialize them. In acquiring these already approved products, we are able to add to our growing portfolio to meet the needs of patients. Our strong balance sheet and cash flow provide the financial resources to support these acquisition efforts.

2004

Since its initial launch in 2004, Acetadote® has become a standard of care for treating acetaminophen poisoning, the leading cause of poisoning in the United States and a potentially life threatening condition.

Kristalose®

In November 2011 Cumberland acquired the FDA registration and worldwide trademark for Kristalose®.

DEVELOP

CUMBERLAND'S DEVELOPMENT TEAM HAS A PROVEN TRACK RECORD OF IDENTIFYING, DEVELOPING, AND REGISTERING SPECIALTY PHARMACEUTICAL PRODUCTS. ANOTHER COMPONENT OF CUMBERLAND'S GROWTH STRATEGY IS TO BUILD UPON THIS SUCCESS AND ACTIVELY SEEK NEW PRODUCT CANDIDATES TO EXPAND OUR PIPELINE. WE SEEK PRODUCTS THAT FIT WITHIN THE STRATEGIC FOCUS OF OUR COMPANY AND CAN ADDRESS UNMET OR POORLY MET MEDICAL NEEDS.

Our business development efforts are led by a multi-disciplinary team with significant pharmaceutical and transactional expertise. We proactively seek out and evaluate product candidates from a variety of sources, including our international network of advisors. Highly critical selection criteria guide our acquisition strategy as we pursue new development stage assets that fit our medical expertise and commercial capabilities. We believe our current product portfolio is representative not only of our discriminating efforts but also of the types of opportunities we seek.

These efforts allow Cumberland to selectively build a portfolio of differentiated, safe, and effective products for underserved patient populations.

Hepatoren™

This year Cumberland acquired the rights to Hepatoren™, a new development stage product candidate, and our development team is currently progressing the clinical work necessary to develop this new therapeutic.

FDA

Cumberland successfully developed and obtained FDA approval for two of our three commercial products, Acetadote® and Caldolor®.

IDENTIFY

IN ADDITION TO OUR EFFORTS TO FURTHER GROW OUR THREE APPROVED BRANDS AND TO ACQUIRE NEW COMMERCIAL AND LATE STAGE DEVELOPMENT PRODUCTS, CUMBERLAND IS ALSO FOCUSED ON IDENTIFYING AND NURTURING EARLIER STAGE PRODUCT CANDIDATES THAT HAVE THE POTENTIAL TO IMPROVE PATIENT CARE.

Our majority-owned subsidiary, Cumberland Emerging Technologies (CET), is jointly owned by Cumberland Pharmaceuticals, Vanderbilt University and the Tennessee Technology Development Corporation. CET is working with leading universities to bridge the development gap and progress biopharmaceutical technologies from the research laboratory to the commercial marketplace. CET's grant program helps researchers and organizations prepare proposals for development funding, primarily through federal and state programs.

Through CET, Cumberland is able to foster and incubate interesting product candidates so that we may identify potential commercial opportunities and determine if there is a good strategic fit for the company. Hepatoren™, or *ifetroban,* is our most recent example of this successful partnership between Cumberland and CET.

450,000

In the U.S., 450,000 patients suffer from medical conditions that make them susceptible to cirrhosis and a subset of these patients develop *Hepatorenal Syndrome* each year. We are developing Hepatoren™ for the initial indication to address this unmet medical need.

CUMBERLAND® PHARMACEUTICALS

Cumberland Pharmaceuticals is a specialty pharmaceutical company that acquires, develops and commercializes branded prescription products designed to improve quality of care and address unmet medical needs. With a focus on underserved niche markets, including hospital acute care and gastroenterology, we deliver products that serve patients in the U.S. market. Cumberland also makes its products available to patients internationally through select strategic partnerships.

Our product portfolio includes Acetadote® *(acetylcysteine)* Injection for the treatment of acetaminophen poisoning, Caldolor® *(ibuprofen)* Injection, the first injectable treatment for pain and fever approved in the United States, and Kristalose® *(lactulose)* for Oral Solution, a prescription laxative. In early 2011, we acquired the rights to Hepatoren™ *(ifetroban)* Injection, and have initiated clinical development to treat patients suffering from *hepatorenal syndrome*, a life-threatening condition involving progressive kidney failure for which there is no FDA approved pharmaceutical treatment.

We intend to grow the Company through the addition of new products that not only enhance shareholder value but, more importantly, improve the lives of patients everywhere.

2011 Milestones

JANUARY 2011

FDA Approves New Formulation of Acetadote®

Cumberland receives approval from the FDA for a new formulation of Acetadote® Injection, the Company's product used to treat acetaminophen poisoning.

FEBRUARY 2011

Tan Cheow Choon appointed Director, International Business Development

Tan Cheow Choon was appointed as Director of International Business. Based in Singapore, Choon is responsible for executing Cumberland's initiative to expand markets for its products across Asia.

APRIL 2011

Cumberland Announces Acquisition of *ifetroban* from CET

Cumberland announces that it has entered into an agreement to acquire the rights to *ifetroban*, a new product candidate. The Company initiated Phase II clinical development under the brand name Hepatoren™ *(ifetroban)* Injection.

JUNE 2011

Caldolor® and Acetadote® licensed in Malaysia and Taiwan

Cumberland announces that Caldolor® and Acetadote® have been licensed to Insanbakti in Malaysia and Harvest & Health Co., Ltd in Taiwan.

JUNE 2011

CET enters into Collaboration with Washington University

CET entered into a new collaboration agreement with Washington University in St. Louis to co-develop promising biopharmaceutical technologies.

OCTOBER 2011

Rick Greene Appointed CFO

Cumberland announces the appointment of Rick S. Greene as Chief Financial Officer after serving as the interim Vice President of Finance and Accounting since April 2011.

NOVEMBER 2011

Acquired FDA Registration and Trademark for Kristalose®

Cumberland Pharmaceuticals announces the FDA registration and trademark for Kristalose® has been acquired from Mylan Pharmaceuticals.

DECEMBER 2011

Caldolor® Approved in Canada

Cumberland and Alveda Pharmaceuticals, a Toronto-based specialty pharmaceutical company, announce that Caldolor® is approved for marketing and sale in Canada.

Message from the CEO

TO OUR SHAREHOLDERS, PARTNERS & EMPLOYEES:

DURING 2011, WE CONTINUED TO ADVANCE OUR MISSION TO IMPROVE THE QUALITY OF HEALTHCARE BY DELIVERING OUR BRANDS TO A GROWING NUMBER OF PATIENTS. WE ALSO PROGRESSED OUR INITIATIVE TO MAKE OUR PRODUCTS AVAILABLE TO PATIENTS IN INTERNATIONAL MARKETS BY EXPANDING OUR NETWORK OF COMPANIES TO REGISTER AND INTRODUCE OUR BRANDS OUTSIDE THE U.S. WE ACCOMPLISHED THESE GOALS BY FOCUSING ON OUR PROVEN CAPABILITIES TO DEVELOP, REGISTER AND BUILD SPECIALTY PHARMACEUTICAL PRODUCTS.

A key achievement last year was the FDA approval of our new Acetadote® formulation, which occurred in January 2011. This milestone enables us to provide continued support for this important brand, which has now become a standard of care for treating acetaminophen overdose—the leading cause of poisoning in this country. We launched this new formulation and transitioned to the next generation Acetadote® product by March and then grew the brand's volume significantly compared to prior years.

In early 2011, we made a concerted effort to establish a core group of medical facilities in the U.S. that approved and stocked our new Caldolor® brand. After reaching our initial goal of establishing the product in more than 500 centers, we sharply focused on building volume and helping many more patients at those approved sites. We also introduced a number of new programs associated with this Caldolor® pull-through effort led by the *"Pre-empt Post-Op Pain"* messaging campaign. The positive feedback from a growing number of physicians successfully using the product continues to give us confidence in this brand.

In the second quarter of 2011, we achieved another key corporate objective through the addition of a new product candidate to our portfolio with the acquisition of rights to *ifetroban*. We received FDA clearance to begin the clinical development program for this new product following its successful manufacture. We are developing it as Hepatoren™, for the treatment of *hepatorenal syndrome,* a life-threatening condition for which there is no effective treatment approved in the U.S. The study is being implemented at major institutions around the country and patient screening is underway. We believe this late-stage acute care product is an excellent strategic fit for our Company and our hospital sales organization.

In November, we were pleased to announce that we reached an agreement to acquire the remaining rights associated with the Kristalose® brand. All rights were acquired, including the trademark and FDA registration, allowing us to streamline the supply chain for Kristalose® and continue our support for the product.

Financially, we had an outstanding year with significant growth in revenues and earnings. A strong balance sheet with significant cash reserves provides us with the opportunity to support our existing brands and selectively expand our portfolio—a key goal for the Company.

I would like to thank our Cumberland team for all their efforts and dedication that made 2011 another successful year. We continue to refine our strategy based on results as well as opportunities. We seek to maximize the near-term opportunities without compromising our long-term success. We are committed to delivering patient solutions that translate into positive outcomes for our shareholders, partners and employees.

I look forward to providing updates on the Company's progress in 2012.

Best wishes,

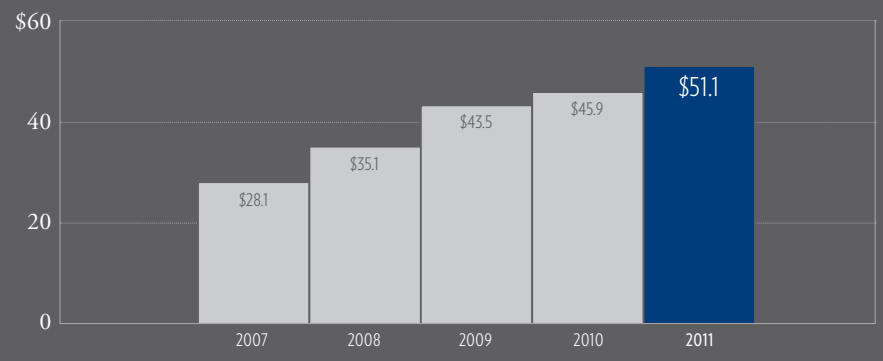
A.J. KAZIMI
Chief Executive Officer

Financial Performance

(dollars in thousands except per share data)	2007	2008	2009	2010	**2011**
Net Revenues	$28,064	$35,075	$43,537	$45,876	**$51,143**
Operating Income	6,725	7,282	5,777	6,502	**9,849**
Operating Margin	24.0%	20.8%	13.3%	14.2%	**19.3%**
Net Income	4,044	4,766	3,059	2,427	**5,658**
Diluted Earnings Per Share	0.24	0.29	0.17	0.12	**0.28**
Total Assets	28,919	31,119	103,724	92,054	**95,518**
Long-Term Obligations	7,623	7,666	20,155	7,802	**5,438**
Total Equity	16,746	17,555	72,221	77,715	**82,835**

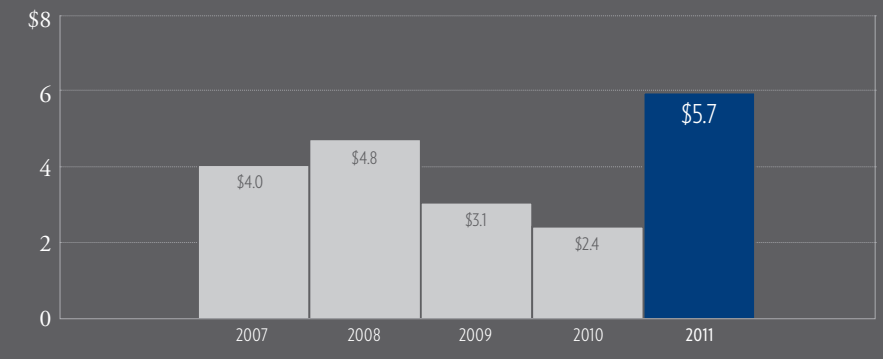
NET REVENUES

($ in millions)



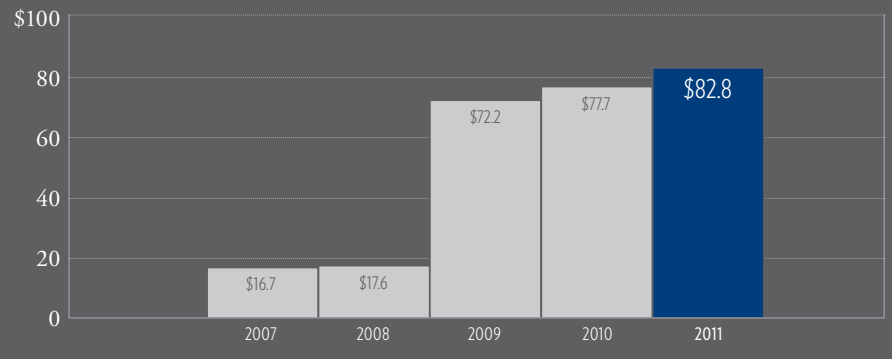
NET INCOME

($ in millions)



SHAREHOLDERS' EQUITY

($ in millions)



Our International Reach

WE RELY ON CAREFULLY SELECTED PARTNERS FOR THE MANUFACTURE, DISTRIBUTION AND INTERNATIONAL COMMERCIALIZATION OF OUR PRODUCTS. THROUGH THESE ARRARNGEMENTS WE ARE EXPANDING OUR GLOBAL PRESENCE TO SUPPORT OUR INTERNATIONAL GROWTH.

Since inception, we have relied on trusted partners for manufacturing and distribution of our products. Partnering these capital-intensive functions to manufacturing and logistics experts allows us to focus primary resources on our core capabilities—acquisition, development and commercialization of innovative pharmaceutical products. We have established our commercial capabilities in the U.S., and are working with international partners to introduce our products to select global markets. These partners represent an important component of our team and we work closely with all of them to deliver only the highest level of quality products to patients.

In 2010, we extended our international reach as three new commercial partners pursued regulatory approval of our products in ex-U.S. markets. These activities resulted in the first approval and commercial launch of a Cumberland product outside of the United States. Phebra Pty. Ltd., our commercial partner for Australia and New Zealand, obtained marketing approval for Acetadote® in Australia and subsequently launched the product in October 2010.

International developments continued to grow in 2011 including agreements with Harvest & Health Co., Ltd in Taiwan, Insanbakti in Malaysia and Al-Nabil International in Dubai (U.A.E.) for commercialization of Caldolor® and Acetadote®. In December 2011, we learned that Alveda, our commercial partner in Canada, received approval to market Caldolor® in that country. We look forward to working with these partners to progress their ongoing initiatives and we continue to pursue new partnerships for other international markets.

DISTRIBUTION

1: Tennessee

Cardinal Health Inc. facility provides warehousing, shipping and other distribution support for our products in the U.S.

COMMERCIALIZATION

2: Australia/New Zealand

Phebra Pty Ltd. is our commercial partner for Acetadote® and Caldolor®.

3: Canada

Alveda Pharmaceuticals Inc. is our commercial partner for Caldolor®.

4: Malaysia

Insanbakti is our commercial partner for Caldolor® and Acetadote®.

5: South Korea

DB Pharm Korea Co. Ltd. is our commercial partner for Caldolor®.

6: Taiwan

Harvest & Health Co., Ltd is our commercial partner for Caldolor® and Acetadote®.

7: Dubai (U.A.E.)

Al-Nabil International is our commercial partner for Caldolor® and Acetadote®.

8: China

Harbin Gloria Pharmaceuticals is our commercial partner for Caldolor® and Acetadote®.

MANUFACTURING

9: Australia

Hospira Australia Pty. Ltd. is a manufacturing partner for Caldolor®.

10: Texas

Mylan Pharmaceuticals is a manufacturing partner for Kristalose®.

11: Ireland

Mylan Pharmaceutical is a manufacturing partner for Acetadote®.

12: Kansas

Bayer Healthcare, LLC is a manufacturing partner for both Caldolor® and Acetadote®.

ACETADOTE® IS THE ONLY
FDA-APPROVED IV TREATMENT FOR
ACETAMINOPHEN OVERDOSE

ACETADOTE®

ACETADOTE® PREVENTS OR REDUCES LIVER DAMAGE RESULTING FROM ACETAMINOPHEN OVERDOSE, THE LEADING CAUSE OF DRUG TOXICITY IN THE U.S.; ACETADOTE® IS THE ONLY FDA APPROVED INJECTABLE TREATMENT AVAILABLE IN THE COUNTRY FOR THIS POTENTIALLY LETHAL CONDITION.

We developed and introduced the product in the United States in 2004, and it is currently used in more than 3,000 U.S. hospitals. With a 3-dose, 21-hour IV infusion, Acetadote® is the shortest FDA-approved treatment regimen for acetaminophen poisoning.

LIFE-SAVING TREATMENT

Acetadote® is used in the emergency department, the intensive care unit, and hospital inpatient setting to prevent or lessen liver damage from an overdose of acetaminophen, a common ingredient in many over-the-counter and prescription medications. Though safe at recommended doses, acetaminophen can cause liver damage with excessive use. Acetadote® is promoted by Cumberland's hospital sales force, and has become a standard of care for the treatment of acetaminophen overdose in the U.S.

Following FDA approval in 2004, the product's label was expanded with a pediatric indication in 2006 and additional safety data in 2008. Based on a Phase IV commitment to the FDA, we then completed development of a new formulation of Acetadote®. We submitted a supplemental New Drug Application (sNDA) for this proprietary formulation in 2010, and in January 2011 received FDA approval for the next generation product. The new product was launched in the U.S. in early 2011, and replaces the original formulation, providing a shelf life increase from 24 to 30 months.

CALDOLOR® IS THE FIRST
FDA-APPROVED INTRAVENOUS TREATMENT
FOR PAIN AND FEVER.

CALDOLOR®

CALDOLOR® IS DESIGNED PRIMARILY FOR USE IN ADULT PATIENTS IN HOSPITALS AND SURGERY CENTERS WHO ARE UNABLE TO RECEIVE ORAL THERAPIES FOR PAIN RELIEF AND FEVER REDUCTION. CLINICAL TRIALS HAVE SHOWN CALDOLOR® TO BE SAFE AND EFFECTIVE: IT REDUCES FEVER, HAS BENEFICIAL ANTI-INFLAMMATORY PROPERTIES AND REDUCES PAIN WHILE ALSO REDUCING OPIOID CONSUMPTION.

IMPROVING PATIENT CARE

Following completion of a development program involving more than 1,400 patients, we received FDA approval for Caldolor® in June 2009. We launched the product in September of that year, and continue to introduce Caldolor® to hospitals and surgical centers across the country through our organization. During 2010, Caldolor® was stocked at a growing number of U.S. medical facilities. This was a result of a dedicated effort during the year to focus on individual hospital formulary approvals for the product. As a result, we were able to achieve approval and stocking of the product at a core group of medical facilities around the U.S. We then initiated a shift in strategy to begin driving pull-through use and corresponding sales of the product.

In June 2011, Caldolor was included as a supplement in the issues of *Anesthesiology News, General Surgery News,* and *Pharmacy Practice News.* All three medical journals ran an insert titled "Multimodal Management of Acute Pain: The Role of IV NSAIDs." The physicians concluded in the article that Caldolor is well suited for preemptive and post-operative multimodal treatment of acute pain in hospitalized patients.

KRISTALOSE® IS THE ONLY
PRESCRIPTION LAXATIVE PRODUCT AVAILABLE
IN A POWDER FORMULATION

KRISTALOSE®

KRISTALOSE® IS A BRANDED PRESCRIPTION LAXATIVE THAT FEATURES THE ESTABLISHED SAFETY AND EFFICACY OF LACTULOSE, PLUS THE CONVENIENCE OF A PRE-MEASURED POWDER DOSE.

A unique, dry powder crystalline formulation of lactulose, Kristalose® is designed to enhance patient compliance in the treatment of acute and chronic constipation. It is the only prescription laxative available in pre-measured powder packets, making it easily portable. Kristalose® dissolves quickly in 4 ounces of water, offering patients a virtually taste-free, grit-free and essentially calorie-free alternative to lactulose syrups. There are no age limitations or length of use restrictions for Kristalose® and it is the only osmotic prescription laxative still sampled to physicians.

In 2009, we completed a patient preference study evaluating Kristalose® compared to similar products in liquid forms. The study, which appeared in *Clinical and Experimental Gastroenterology,* demonstrated that 83% of patients in the study preferred the taste, consistency and portability of Kristalose® over similar products in liquid forms. This data is highly relevant to our marketing activities for Kristalose®, as a key differentiating factor for the product is its patient preference.

Kristalose® is promoted by our field sales force to high prescribers of laxatives, including gastroenterologists and pediatricians. In 2010, we converted the field sales force from a contract sales team to Cumberland employees and marked another significant expansion of our proprietary sales capabilities. The conversion also strengthens our long-term commitment to the Kristalose® brand, as well as to the group of talented sales professionals promoting the product across the country.

In 2011, we launched a new marketing campaign for Kristalose®. In November 2011, we reached an agreement to acquire the FDA registration and trademark from Mylan Pharmaceuticals, thus allowing us to streamline the supply chain for the product.

PHASE II
PIPELINE CANDIDATE

HEPATOREN™

IN EARLY 2011, CUMBERLAND ACQUIRED THE RIGHT TO *IFETROBAN* FROM CET, AND INITIATED CLINICAL DEVELOPMENT UNDER THE BRAND NAME HEPATOREN™.

Ifetroban had previously been developed by a large pharmaceutical company through seven Phase II studies targeting significant cardiovascular indications. That development program did not meet all of its goals for the large indications, and the product was subsequently donated to Vanderbilt University. Researchers at Vanderbilt identified *ifetroban* as a safe, active and potentially valuable compound in treating patients for several new indications. Vanderbilt in turn partnered with CET, Cumberland's majority-owned subsidiary, to transfer all of the data and manufacturing know-how associated with this product and establish a plan to complete its development.

Cumberland plans to initially focus on an injectable formulation to treat patients suffering from *hepatorenal syndrome*, a life-threatening condition involving progressive kidney failure for which there is no FDA approved pharmaceutical treatment. Approximately 450,000 patients in the United States suffer from medical conditions that make them susceptible to cirrhosis and a subset of these patients develop *hepatorenal syndrome* every year. Hepatoren™ will be targeted to hospital critical care physicians and share many of the same call points as Acetadote®.

In 2011, Cumberland reached an agreement with the FDA concerning requirements for approval and obtained clearance for the product's Investigational New Drug Application or IND. We also commenced product manufacturing and initiated a Phase II clinical study.

Message from the CFO

TO OUR SHAREHOLDERS, PARTNERS & EMPLOYEES:

2011 WAS AN EXCITING YEAR AT CUMBERLAND; WE ACHIEVED SEVERAL SIGNIFICANT FINANCIAL MILESTONES INCLUDING:

- Net revenues of $51.1 million—11.5% higher than 2010;
- Net income of $5.7 million, which was 147% higher than the prior year; and
- Earnings per share of $0.28, representing an increase of 130% over the prior year.

We ended the year with more than $70 million in cash and over $95 million in total assets. We also reduced our outstanding debt by $2.3 million and increased shareholder equity by $82.8 million.

The Company generated operating cash flow of $8.7 million in 2011, which represents an increase of over 2,400% from 2010. We used our cash flow to build our brands and support research and development initiatives.

Additionally, the Company continued its stock repurchase program throughout 2011. During the life of the program, we have purchased a total of 1.1 million shares for approximately $6.8 million. We anticipate continuing to repurchase shares in 2012 as our cash flow and market conditions warrant.

In 2011, we successfully amended our credit facility. As a result of the amendment, we expanded our revolving debt capacity from $6 million to $10 million with the ability for future expansion of the facility to $20 million. We also achieved better pricing and improved covenant requirements for this facility. Along with our strong balance sheet, we believe our current debt facility gives us the ability to be opportunistic in our business development activities.

Cumberland achieved its eighth consecutive year of profitability and we remain committed to continuing to manage the business in a prudent manner for long-term sustainable results. We will work to make 2012 another strong year for Cumberland.

Thank you for your continued interest and support.

Sincerely,

RICK S. GREENE
Chief Financial Officer

CUMBERLAND PHARMACEUTICALS INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

December 31, 2011 and 2010	2011	2010
ASSETS		
Current assets:		
Cash and cash equivalents	$70,599,146	$65,893,970
Accounts receivable, net of allowances	7,082,890	5,145,494
Inventories	5,774,694	7,683,842
Prepaid and other current assets	1,627,455	1,336,765
Deferred tax assets	2,223,882	978,771
Total current assets	87,308,067	81,038,842
Property and equipment, net	1,119,339	1,220,010
Intangible assets, net	7,023,064	7,427,223
Deferred tax assets	—	2,265,192
Other assets	67,846	102,787
Total assets	$95,518,316	$92,054,054
LIABILITIES AND EQUITY		
Current liabilities:		
Current portion of long-term debt	$ —	$ 2,666,668
Accounts payable	1,513,548	2,124,654
Other accrued liabilities	5,086,400	4,436,298
Total current liabilities	6,599,948	9,227,620
Revolving line of credit	4,859,951	1,825,951
Long-term debt, excluding current portion	—	2,666,665
Deferred tax liability	645,029	—
Other long-term obligations, excluding current portion	578,119	618,343
Total liabilities	12,683,047	14,338,579
Commitments and contingencies		
Equity:		
Shareholders' equity:		
Common stock—no par value; 100,000,000 shares authorized; 20,020,535 and 20,338,461 shares issued and outstanding as of December 31, 2011 and 2010, respectively	70,272,155	70,778,874
Retained earnings	12,656,662	6,998,806
Total shareholders' equity	82,928,817	77,777,680
Noncontrolling interests	(93,548)	(62,205)
Total equity	82,835,269	77,715,475
Total liabilities and equity	$95,518,316	$92,054,054

CUMBERLAND PHARMACEUTICALS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31, 2011, 2010 and 2009	2011	2010	2009
Revenues:			
Net product revenue	$50,893,794	$44,704,570	$43,142,350
Other revenue	248,982	1,171,801	394,928
Net revenues	51,142,776	45,876,371	43,537,278
Costs and expenses:			
Cost of products sold	5,362,554	3,586,646	4,136,541
Selling and marketing	20,940,060	22,674,505	20,194,074
Research and development	5,028,072	4,327,485	4,993,278
General and administrative	9,197,955	7,990,222	7,643,070
Amortization	655,302	686,911	686,904
Other	109,346	108,855	106,776
Total costs and expenses	41,293,289	39,374,624	37,760,643
Operating income	9,849,487	6,501,747	5,776,635
Interest income	210,727	200,207	79,363
Interest expense	(353,497)	(1,423,523)	(772,927)
Income before income taxes	9,706,717	5,278,431	5,083,071
Income tax expense	(4,080,204)	(2,851,420)	(2,024,192)
Net income	5,626,513	2,427,011	3,058,879
Net loss at subsidiary attributable to noncontrolling interests	31,343	29,669	32,536
Net income attributable to common shareholders	$ 5,657,856	$ 2,456,680	$ 3,091,415
Earnings per share attributable to common shareholders			
Basic	$ 0.28	$ 0.12	$ 0.22
Diluted	$ 0.28	$ 0.12	$ 0.17
Weighted-average shares outstanding			
Basic	20,342,913	20,333,932	14,199,479
Diluted	20,572,132	21,058,577	18,234,171

CUMBERLAND PHARMACEUTICALS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2011, 2010 and 2009	2011	2010	2009
Cash flows from operating activities:			
Net income	$ 5,626,513	$ 2,427,011	$ 3,058,879
Adjustments to reconcile net income to net cash flows provided by operating activities:			
Depreciation and amortization expense	1,040,407	978,398	816,499
Deferred tax expense (benefit)	1,665,110	(332,349)	(525,467)
Stock-based compensation—nonemployees	149,719	80,222	1,056,401
Stock-based compensation—employees	629,586	688,408	606,395
Excess tax benefit derived from exercise of stock options	(2,355,345)	(3,874,966)	(3,968,894)
Noncash interest expense	137,487	352,484	128,800
Net changes in assets and liabilities affecting operating activities:			
Accounts receivable	(1,937,396)	1,031,091	(3,047,238)
Inventory	1,909,148	(2,860,969)	(3,060,097)
Prepaid, other current assets and other assets	(399,393)	1,342,032	(721,464)
Accounts payable and other accrued liabilities	2,296,535	201,725	6,572,098
Other long-term obligations	(40,224)	313,575	(510,942)
Net cash provided by operating activities	8,722,147	346,662	404,970
Cash flows from investing activities:			
Additions to property and equipment	(257,502)	(577,159)	(601,802)
Additions to trademarks and patents	(180,269)	(191,483)	(110,541)
Net cash used in investing activities	(437,771)	(768,642)	(712,343)
Cash flows from financing activities:			
Proceeds from initial public offering of common stock	—	—	85,000,000
Costs of initial public offering	—	—	(7,479,011)
Proceeds from borrowings on long-term debt	—	—	18,000,000
Principal payments on note payable	(5,333,333)	(12,666,667)	(5,000,000)
Net borrowings on line of credit	3,034,000	—	—
Costs of financing for long-term debt and credit facility	(17,637)	(110,000)	(189,660)
Payments made in connection with repurchase of common shares	(4,247,440)	(4,846,791)	(27,295,808)
Proceeds from exercise of stock options	629,865	1,362,760	175,089
Excess tax benefit derived from exercise of stock options	2,355,345	3,874,966	3,968,894
Net cash (used in) provided by financing activities	(3,579,200)	(12,385,732)	67,179,504
Net increase (decrease) in cash and cash equivalents	4,705,176	(12,807,712)	66,872,131
Cash and cash equivalents, beginning of year	65,893,970	78,701,682	11,829,551
Cash and cash equivalents, end of year	$70,599,146	$ 65,893,970	$ 78,701,682
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest	$ 191,410	$ 814,373	$ 677,387
Income taxes	304,480	52,136	196,187
Noncash investing and financing activities:			
Change in unpaid invoices for purchases of intangibles	97,806	—	—
Reclass of redeemable common stock to (from) equity	—	1,930,000	(1,930,000)
Deferred financing costs	—	—	335,075

Business Overview

CUMBERLAND PHARMACEUTICALS, INC. ("CUMBERLAND," THE "COMPANY," OR AS USED IN THE CONTEXT OF "WE," "US," OR "OUR"), IS A GROWING SPECIALTY PHARMACEUTICAL COMPANY FOCUSED ON THE ACQUISITION, DEVELOPMENT AND COMMERCIALIZATION OF BRANDED PRESCRIPTION PRODUCTS. OUR PRIMARY TARGET MARKETS ARE HOSPITAL ACUTE CARE AND GASTROENTEROLOGY, WHICH ARE CHARACTERIZED BY RELATIVELY CONCENTRATED PHYSICIAN PRESCRIBER BASES THAT WE BELIEVE CAN BE PENETRATED EFFECTIVELY BY RELATIVELY SMALL, TARGETED SALES FORCES. CUMBERLAND IS DEDICATED TO PROVIDING INNOVATIVE PRODUCTS THAT IMPROVE QUALITY OF CARE FOR PATIENTS AND ADDRESS POORLY MET MEDICAL NEEDS.

Our product portfolio includes Acetadote® *(acetylcysteine)* Injection for the treatment of acetaminophen poisoning, Caldolor® *(ibuprofen)* Injection, the first injectable treatment for pain and fever approved in the United States, Kristalose® *(lactulose)* for Oral Solution, a prescription laxative, and Hepatoren™ *(ifetroban)* Injection, a Phase II candidate for the treatment of critically ill hospitalized patients suffering from *hepatorenal syndrome* (HRS). We market and sell our products through our dedicated hospital and gastroenterology sales forces in the United States, which together comprised more than 100 sales representatives and managers as of March 1, 2012.

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, commercialization and finance. Our business development team identifies, evaluates and negotiates product acquisition, in-licensing and out-licensing opportunities. Our product development team develops proprietary product formulations, manages our clinical trials, prepares all regulatory submissions and manages our medical call center. Our quality and manufacturing professionals oversee the manufacture of our products. Our marketing and sales professionals are responsible for our commercial activities, and we work closely with our third party distribution partner to ensure availability and delivery of our products.

The following table sets forth our total net revenue, net income and net income per share for the periods presented:

For the Years Ended December 31,	2011	2010	2009
	(in millions, except per share data)		
Total revenues, net	$51.14	$45.88	$43.54
Net income	$ 5.66	$ 2.46	$ 3.09
Basic net income per common share	$ 0.20	$ 0.12	$ 0.22
Diluted net income per common share	$ 0.28	$ 0.12	$ 0.17

We have been profitable since 2004, generating sufficient cash flows to fund our development and marketing programs. In 2009, we completed an initial public offering of our common stock to help facilitate our further growth. Our strategy includes maximizing the potential of our existing products and continuing to expand our portfolio of differentiated products. Our current products are approved for sale in the United States, and we are working with overseas partners to bring them to international markets. We also look for opportunities to expand into additional patient populations through new product indications, whether through our own clinical studies or by supporting investigator-initiated studies at reputable research institutions. We actively pursue opportunities to acquire additional late-stage development product candidates as well as marketed products in our target medical specialties. Further, we are supplementing these growth strategies with the early-stage drug development activities of Cumberland Emerging Technologies (CET), our 85%-owned subsidiary. CET partners with universities and other research organizations to develop promising, early-stage product candidates, which Cumberland Pharmaceuticals has the opportunity to commercialize.

We were incorporated in 1999 and have been headquartered in Nashville, Tennessee since inception. Our website address is www.cumberlandpharma.com. We make available, free of charge through our website, our press releases, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after their filing with the U.S. Securities and Exchange Commission, or SEC. These filings are also available to the public at www.sec.gov.

Corporate Information

BOARD OF DIRECTORS

A.J. Kazimi
Chairman
Cumberland Pharmaceuticals

Dr. Gordon R. Bernard
Associate Vice-Chancellor for Research
Vanderbilt University

Martin E. Cearnal
Senior Vice President and Chief Commercial Officer
Cumberland Pharmaceuticals

Dr. Robert G. Edwards
Former Deputy Director
Institute for Medicine and Veterinary Science—South Australia

Dr. Lawrence W. Greer
Senior Managing Partner
Greer Capital Advisors

Jonathan I. Griggs
Former Vice President Human Resources
Warner Lambert Corporation

Joey A. Jacobs
Chairman & CEO
Acadia Healthcare

James R. Jones
Former Managing Partner
KPMG LLP-Nashville

Thomas R. Lawrence
Chairman
Aetos Technologies Inc.

MANAGEMENT TEAM

A.J. Kazimi
Chief Executive Officer

Martin E. Cearnal
Senior Vice President and Chief Commercial Officer

Jean W. Marstiller
Senior Vice President, Administrative Services and Corporate Secretary

Leo Pavliv, R.Ph.
Senior Vice President, Operations and Chief Development Officer

Rick S. Greene
Vice President Finance & Accounting and Chief Financial Officer

James L. Herman
Vice President, National Accounts and Chief Compliance Officer

Amy D. Rock, Ph.D.
Senior Director, Regulatory & Scientific Affairs

Arthur P. Wheeler, M.D.
Director, Medical Affairs

Brenda Lemus, M.D.
Director, Field Based Medical Affairs

Barry L. Lee
Product Director

Kelly Menzel
Director, Hospital Sales

Cindy Patton
Director, Sales & Marketing

Todd Anthony
Director, Sales Training & Development

Doug Jack
Director, Financial Reporting

Tan Cheow Choon
Director, International Business

COMPANY HEADQUARTERS

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Nashville, Tennessee 37203
Phone: (615) 255-0068
Toll Free: (877) 484-2700
Fax: (615) 255-0094

STOCK LISTING

NASDAQ Global Select
Market Ticker Symbol: CPIX

ANNUAL MEETING

10:00 a.m. Central Time
Tuesday, April 17, 2012
Vanderbilt University Student Life Center
310 25th Avenue South
Nashville, Tennessee 37240

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

KPMG LLP
401 Commerce Street, Suite 1000
Nashville, Tennessee 37219
(615) 244-1602

TRANSFER AGENT AND REGISTRAR

Continental Stock Transfer & Trust Company
17 Battery Place
New York, New York 10004
(800) 509-5586
(212) 509-4000
cstmail@continentalstock.com

FORWARD-LOOKING STATEMENT

This annual report includes forward-looking statements regarding expected future results of the company. A variety of factors could cause actual results to differ materially from expected results. Please see the risk factors more fully described in our Annual Report on Form 10-K for the year ended December 31, 2011, which is filed with the U.S. Securities and Exchange Commission.

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