CADIZ INC
Form DEF 14A
March 25, 2008

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
SCHEDULE 14A
(Rule 14a-101)
INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION
PROXY STATEMENT PURSUANT TO SECTION 14(A) OF THE SECURITIES
EXCHANGE ACT OF 1934

Filed by the Registrant [X]
Filed by a Party other than the Registrant [ ]
Check the appropriate box:
[ ] Preliminary Proxy Statement
[ ] Confidential, For Use of the Commission Only (as Permitted by Rule 14a-6(e)(2))
[X] Definitive Proxy Statement
[ ] Definitive Additional Materials
[ ] Soliciting Material Pursuant to §240.14a-12

CADIZ INC.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)
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CADIZ INC.

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON MAY 9, 2008

To our Stockholders:

The annual meeting of stockholders of Cadiz Inc., a Delaware corporation, will be held at the law offices of Theodora Oringher Miller & Richman PC, located at 2029 Century Park East, 6th Floor, Los Angeles, California 90067, on Friday, May 9, 2008, at 11 a.m., local time, and any adjournments thereof, to consider and act upon the following matters:

(1) The election of six members of the Board of Directors, each to serve until the next annual meeting of stockholders or until their respective successors shall have been elected and qualified;

(2) Ratification of the selection by the Audit Committee of our Board of Directors of PricewaterhouseCoopers LLP as Cadiz' independent certified public accountants for fiscal year 2008;

(3) The transaction of such other business as may properly come before the meeting and any adjournments thereof.

The accompanying proxy statement contains a more complete description of these proposals.

Only stockholders of record at the close of business on March 17, 2008 are entitled to notice of and to vote at the annual meeting. In order to constitute a quorum for the conduct of business at the annual meeting, holders of a majority of all outstanding voting shares of our common stock must be present in person or be represented by proxy.

Whether or not you expect to attend the annual meeting in person, please either vote your shares via Internet, by phone (detailed instructions are included on the proxy card) or date, sign and mail the enclosed proxy in the postage paid return envelope provided as promptly as possible. The proxy is revocable and will not affect your right to vote in person if you attend the meeting.

By Order of the Board of Directors

O'Donnell Iselin II
Secretary

Los Angeles, California
March 25, 2008

CADIZ INC.

Annual Meeting of Stockholders

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CADIZ INC.
550 S. Hope Street, Suite 2850
Los Angeles, California 90071

PROXY STATEMENT
For
ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON MAY 9, 2008

INFORMATION ABOUT SOLICITATION AND VOTING

The Board of Directors of Cadiz Inc. is soliciting proxies to be voted at the annual meeting of our stockholders to be held on Friday, May 9, 2008, at the time and place and for the purposes set forth in the accompanying Notice of Annual Meeting of Stockholders. This proxy statement contains information that may help you decide how to vote. These proxy materials were mailed on or about March 24, 2008 to all stockholders of record.

Cadiz' Annual Report on Form 10-K for the year ended December 31, 2007, including audited financial statements, is being mailed to you with this proxy statement.

RECORD DATE, VOTING SECURITIES AND QUORUM

The Board of Directors has fixed the close of business on March 17, 2008 as the record date for determination of stockholders entitled to notice of, and to vote at, the annual meeting.

On the record date, 11,958,210 shares of our common stock were outstanding. Holders of common stock are entitled to one vote per share. Only stockholders of record at the close of business on the record date will be entitled to vote.

The candidates for director receiving a plurality of the votes of the shares present in person or represented by proxy will be elected (Proposal 1). An affirmative vote of a majority of the shares present or represented by proxy and voting at the meeting is required for ratification of Cadiz' independent registered public accounting firm (Proposal 2). If you complete, sign, and date the enclosed proxy and return it before the meeting, the persons named will vote your shares as you specify in the proxy. If you sign, date, and return your proxy but do not indicate how you wish your shares voted, they will be voted for the proposals. If you do not return a signed proxy, or submit your vote via Internet or by phone, then your shares will not be voted unless you attend the meeting and vote in person.

To have a quorum, holders of a majority of all shares of voting stock outstanding on the record date must be present at the meeting, either in person or by proxy. Abstentions and "broker non-votes" - shares held by brokerage firms for their clients as to which the firms have not received voting instructions from their clients and therefore do not have the authority to vote - will be counted for purposes of determining a quorum, but will be treated as neither a vote "for" nor a vote "against" the proposals.

REVOCABILITY OF PROXIES

You may revoke a proxy any time before the voting begins in any of the following ways:

* By giving written notice to our corporate secretary;

* By signing and delivering a later dated proxy; or

* By attending and voting in person at the meeting.

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COST OF SOLICITATION

We are paying the expenses of this solicitation. If requested, we will also reimburse brokerage houses and other custodians, nominees and fiduciaries for their reasonable expenses in sending proxy material to principals and obtaining their instructions. In addition to solicitation by mail, our directors, officers, and employees may solicit proxies, without extra compensation, in person or by telephone, fax, e-mail, or similar means.

PROPOSAL 1

ELECTION OF DIRECTORS

The Board of Directors has nominated the six persons listed below for election at the annual meeting to serve as directors for a term expiring at the 2008 annual meeting of stockholders or until their respective successors are elected and qualified.

Keith Brackpool
Murray H. Hutchison
Timothy J. Shaheen
Stephen J. Duffy
Winston H. Hickox
Geoffrey Grant

Each of the nominees currently serves as a director and has agreed to serve as such for another term if elected. Under the terms of our credit facility with Peloton Multi-Strategy Master Fund and Milfam II L.P., as lenders, and Peloton Partners, LLP, as administrative agent (collectively, "Peloton"), Peloton has the right to designate one independent director to serve on the Board and its committees. Peloton has selected Raymond J. Pacini as its designee. Mr. Pacini will serve as a director along with the other persons who are elected as directors from the six nominees named above.

Proxies will be voted for the election of the nominees named above unless instructions are given to the contrary. Proxies cannot be voted for a greater number of persons than the number of nominees named. Should any nominee become unable to serve as a director, the persons named in the enclosed form of proxy will, unless otherwise directed, vote for the election of such other person as the present Board of Directors may designate to fill that position.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE "FOR" PROPOSAL 1.

DIRECTORS AND EXECUTIVE OFFICERS

The following sets forth certain biographical information, the present occupation and the business experience for the past five years or more of each director and executive officer:

Nominees for Director:

Name	Age	Position with Cadiz
Keith Brackpool	50	Chairman of the Board, President and Chief Executive Officer
Murray H. Hutchison	69	Director
Timothy J. Shaheen	48	Director
Stephen J. Duffy	54	Director
Winston H. Hickox	65	Director

Geoffrey Grant	47	Director

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Director designated by the
Peloton Credit Agreement:

Name	Age	Position with Cadiz
Raymond J. Pacini	52	Director

Executive Officers who are not Directors:

Name	Age	Position with Cadiz
O'Donnell Iselin II	54	Chief Financial Officer and Secretary
Richard E. Stoddard	57	Assistant Secretary, Chairman of the Board of Managers and CEO of Cadiz Real Estate LLC

Keith Brackpool is a founder of Cadiz, has served as a member of Cadiz' Board of Directors since September 1986, and has served as President and Chief Executive Officer of Cadiz since December 1991. Mr. Brackpool assumed the role of Chairman of the Board of Cadiz on May 14, 2001, and was the Chief Financial Officer from May 19, 2003 until the appointment of Mr. Iselin to that position in October 2005. Mr. Brackpool has also been a principal of 1334 Partners L.P., a partnership that owns commercial real estate from 1989 to present.

Murray H. Hutchison was appointed a director of Cadiz in June 1997. He is also a member of the Board of Managers (an LLC's functional equivalent of a Board of Directors) of Cadiz' subsidiary, Cadiz Real Estate LLC. In his capacity as a manager of the LLC, he performs essentially the same duties on behalf of the LLC as he would as an outside director for a corporation. Since his retirement in 1996 from International Technology Corporation, a publicly traded diversified environmental management company, Mr. Hutchison has been self-employed with his business activities involving primarily the management of an investment portfolio. From 1976 to 1996, Mr. Hutchison served as Chief Executive Officer and Chairman of International Technology. Mr. Hutchison currently serves as Chairman of the Board of Texas Eastern Product Pipelines Company (TEPPCO), a publicly traded company operating in refined petroleum products, liquefied petroleum gases and petrochemical transportation and storage. Mr. Hutchison serves as lead director on the board of Jack in the Box, Inc., a publicly traded fast food restaurant chain; and as a director on the board of Cardium Therapeutics, Inc., a publicly traded medical technology company. Additionally, Mr. Hutchison serves as Chairman of the Huntington Hotel Corporation, owner of a privately owned hotel and office building, and as a director of several other non-publicly traded U.S. companies.

Timothy J. Shaheen was appointed a director of Cadiz in March 1999. Mr. Shaheen is a private investor and principal of Difinity Capital Partners LLP. Commencing January 1, 2008, Mr. Shaheen, as the sole member and manager of AG Derivatives, L.L.C., provides agricultural management consulting services to Cadiz. From September 1996 to April 2005, Mr. Shaheen served as the President, Chief Executive Officer and a director of Sun World International. Prior to joining Sun World, Mr. Shaheen served as a senior executive with Albert Fisher North America, a publicly traded domestic and international produce company from 1989 to 1996. While with Albert Fisher, Mr. Shaheen also served as director of its Canadian produce operations and as a director of Fresh Western Marketing, one of the largest growers and shippers of fresh vegetables in the Salinas Valley of California. Prior to his employment with Albert Fisher, Mr. Shaheen has seven years of experience with the accounting firm of Ernst & Young LLP. Mr. Shaheen is a certified public accountant.

Raymond J. Pacini was appointed a director of Cadiz effective June 16, 2005. Mr. Pacini is the designee of Peloton pursuant to the right of Peloton to designate a single director under the terms of Cadiz' credit facility with Peloton. Mr. Pacini was originally appointed to the Board as a nominee of ING pursuant to the rights of ING, our prior lender, as a former holder of Cadiz' Series F preferred stock. As of June 29, 2006, Cadiz' loan with ING was paid in full and ING's right to designate members of our Board of Directors was terminated. Since May 1998, Mr. Pacini has been the President, Chief Executive Officer and a Director of California Coastal Communities, Inc., a publicly traded (NASDAQ:CALC) residential land development and homebuilding company operating in Southern California. From June 1990 until May 1998, Mr. Pacini was the Chief Financial Officer of CALC (formerly known as Koll Real Estate Group, Inc. and Henley Properties, Inc.).

Stephen J. Duffy was appointed a director of Cadiz effective July 3, 2006 to replace outgoing di: #000000; background: transparent"> Ø ensure fairness among the executive management team by recognizing the contributions each executive makes to our success; and Ø compensate our executives so they will manage our business to meet our long-range objectives.

When making decisions on setting compensation for new employees, the Compensation Committee considers the importance of the position to us, the individual s past salary history and the contributions to be made by the executive officer to the Company.

We use the following principles to guide our decisions regarding executive compensation:

Ø provide compensation packages targeted at market median levels;

Ø require performance goals to be achieved that will increase value to the shareholder;

Ø offer a comprehensive benefits package to all full-time employees; and

Ø provide fair and equitable compensation consistent with experience and performance.

Our compensation programs

Overall, our compensation programs are designed to be consistent with the objectives and principles set forth above. The basic elements of our executive compensation at Cumberland are base salary, annual bonuses, long-term equity incentive plan awards, retirement savings opportunities and health and welfare benefits.

In making compensation determinations, our Compensation Committee considers published survey data to guide compensation decisions and then considers the performance of each named executive officer through a review of annual corporate and individual objectives. In 2010 and previous years, the Committee has used the Radford Global Life Sciences, or Radford, Survey of approximately 650 pharmaceutical and biotechnology companies to ensure that our compensation practices are competitive relative to our industry and our size based on number of employees. The survey provides benchmarking data for base salary, annual bonuses and long-term equity incentive awards, and we target the midpoint in the range of reported compensation for positions held by each named executive officer. The Committee then determines adjustments in each element of compensation paid to our named executive officers based on a review of annually established corporate and individual objectives. These annual objectives help identify achievements made by our executive officers. Increases or decreases in compensation in relation to the midpoint of the range identified in the Radford survey are based on our Compensation Committee s review of each executive s performance, as well as other factors including the Committee s assessment of the executive officer s past experience, knowledge, future potential and the scope of his or her responsibilities.

Corporate objectives against which all of our executive officers are evaluated involve growth in sales and promotion of our marketed products, progress in our product development activities, progress in expanding our product pipeline through development or acquisition activities, enhancement of our corporate infrastructure and improvement in overall financial performance of the Company. Individual objectives for our executive officers involve more specific progress in areas of personal responsibility and vary by individual. The achievement of particular corporate and individual objectives does not determine compensation levels in a formulaic manner.

Base salary and annual bonuses

We review salary ranges and individual salaries for our executive officers on an annual basis. We establish the base salary for each executive officer based on consideration of median pay levels in the market and internal factors, such as the individual s performance and experience, as well as pay of others on our executive team.

As discussed above, our Compensation Committee determines base salaries for each named executive officer after a review of published survey data, which provides us with a general understanding of the reasonableness and competitiveness of our compensation. We believe the base salaries paid to our executives during 2010 achieved our compensation objectives, compared favorably to market pay levels and was consistent with our target of providing base salaries at or near the market median.

The awards of discretionary annual bonuses are determined after consideration of our organizational and individual objectives, and are intended to recognize and reward our named executive officers with cash payments above base salary as determined by our success in a given year. Our Compensation Committee uses the Radford survey as a benchmarking guide for bonuses as a percentage of base salary, and then considers each executive s individual performance to determine bonuses paid in a given year. In 2010, adjustments to our executive officers total compensation were made based on an analysis of current market pay levels in the aforementioned Radford survey. In addition to market pay levels, factors taken into account in determining 2010 bonuses included each executive s contributions, performance, role and responsibilities and the relationship of the executive officer s base pay to that of other executives.

Long-term equity incentive compensation

We award long-term equity incentive grants to executives as part of our total compensation package. These awards are consistent with our pay for performance principles and align the interests of the executives with the interests of our shareholders. The Compensation Committee reviews and recommends to the Board of Directors the amount of each award to be granted to executive officers, and the Board of Directors approves the awards. The Compensation Committee s goal is to provide awards that are competitive with the external market. Long-term equity incentive awards granted to executives are determined after consideration of data included in the Radford survey. The awards generally vest over a period of years and are intended to focus our executives on achievement of our long-term strategic goals. Long-term equity incentive awards were made pursuant to our 1999 Stock Option Plan, or the 1999 Plan, until April 2007, and thereafter pursuant to our 2007 Long-Term Incentive Compensation Plan.

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1999 Stock Option Plan

Our 1999 Plan provided for the grant of incentive stock options and nonqualified stock options. The 1999 Plan is administered by a committee designated by our Board of Directors. The committee, in its sole discretion, granted options under the 1999 Plan to certain persons rendering services to us, including employees, directors and consultants. Except as otherwise determined by the committee and stated in the applicable option agreement, the exercise price per share of each option granted under the 1999 Plan is the fair market value per share on the date of grant, as defined in the 1999 Plan, except for Mr. Kazimi s, whose exercise price is 110% of fair market value at the time of issuance. In general, the fair market value per share was determined by our Board of Directors until the Company became a public entity. An option may generally be exercised until the tenth anniversary of the date that we granted the option, except for Mr. Kazimi s option agreements which have five-year terms. Option holders who exercise their options may pay for their shares in cash, check or such other consideration as is deemed acceptable by us. All agreements have defined vesting schedules.

As of March 1, 2011, there were outstanding options to purchase a total of 1,100,905 shares of common stock pursuant to the 1999 Plan. The exercise price per share under such options ranges from $1.63 to $11.00.

2007 Long-Term Incentive Compensation Plan

The purposes of the 2007 Long-Term Incentive Compensation Plan, or the 2007 Plan, are:

- to encourage our employees and consultants to acquire stock and other equity-based interests; and
- to replace the 1999 Plan without impairing the vesting or exercise of any option granted thereunder.

The 2007 Plan authorizes the issuance of each of the following incentives:

- incentive stock options (options that meet Internal Revenue Service requirements for special tax treatment);
- non-statutory stock options (all stock options other than incentive stock options);
- stock appreciation rights (right to receive any excess in fair market value of shares over a specified exercise price);
- restricted stock (shares subject to vesting, transfer and forfeiture limitations); and
- performance shares (contingent awards comprised of stock and/or cash and paid only if specified performance goals are met).

The Compensation Committee administers the 2007 Plan. The Compensation Committee is authorized to select participants, determine the type and number of awards to be granted, determine and later amend, subject to certain limitations, the terms of any award, interpret and specify the rules and regulations relating to the 2007 Plan and make all other necessary determinations. Employees and consultants other than non-employee directors are eligible to participate. We may cancel unvested or unpaid incentives for terminated employees and consultants to the extent permitted by law. Upon the occurrence of a change of control event, as defined in the 2007 Plan, all outstanding options will automatically become exercisable in full, and restrictions and conditions for other issued incentives will generally be deemed terminated or satisfied. In addition, our Board of Directors may amend or terminate the 2007 Plan, subject to shareholder approval, to comply with tax or regulatory requirements.

Under the 2007 Plan, all executive officers were granted incentive option agreements for common stock in 2010 at exercise prices equal to the fair market value of our common stock at the time of issuance, except Mr. Kazimi, whose exercise price is 110% of the fair market value at the time of issuance. Each option agreement issued in 2010 has a term of five years and all agreements have defined vesting schedules.

As of March 1, 2011, there were outstanding options to purchase a total of 462,307 shares of common stock pursuant to the 2007 Plan. The exercise price per share under these options ranges from $4.95 to $17.00.

As of March 1, 2011, there were 21,050 shares of unvested restricted stock issued pursuant to the 2007 Plan, which have defined vesting schedules. There were also 12,886 shares of common stock outstanding, as of that date, which were issued pursuant to the 2007 Plan.

Retirement savings opportunity

Effective January 1, 2006, we established a 401(k) plan covering all employees meeting certain minimum service and age requirements. The plan allows all qualifying employees to contribute the maximum tax-deferred contribution allowed by the Internal Revenue Code. The non-Highly Compensated Employees, or non-HCEs, do not have a minimum or maximum percentage limit that they can defer. The HCEs, however, are limited to what they can defer based on prior year s testing. Hardship distributions are permitted under well- defined circumstances. Beginning January 2008, our Board approved matching employee contributions. We intend to match a portion of the employee contributions on an annual basis.

Health and welfare benefits

All full-time employees, including our named executive officers, may participate in our health and welfare benefits programs, which consist of medical, dental and vision care coverage, disability insurance and life insurance.

Employment agreements, severance benefits and change in control provisions

In 2010, we entered into new, annual employment agreements with all of our employees. The employment agreements provide that individuals may be eligible for any bonus program which has been approved by our Board of Directors. Any such bonus is discretionary and will be subject to the terms of the bonus program, the terms of which may be modified from year-to-year in the sole discretion of our Board of Directors. During the period of employment under these agreements, each of our employees will be entitled to additional benefits, including eligibility to participate in any company-wide employee benefits programs approved by our Board of Directors as well as reimbursement for reasonable expenses.

Employment is at-will and may be terminated by us at any time, with or without notice and with or without cause. Similarly, each employee may terminate his or her employment with us at any time, with or without notice. Our employment agreements do not provide for any severance payments in the event employment is terminated for cause nor any severance benefits in the event employment is terminated as a result of death or permanent disability. The employment agreements include non-competition, non-solicitation and nondisclosure covenants on the part of employees. These agreements also require that, during the term of employment with us and for one year after an individual ceases to be employed by us, each employee may not compete with our business in any manner, unless he or she discloses all facts to our Board of Directors and receives a release allowing him or her to engage in a specific activity. Pursuant to the employment agreements, our employees also agree that for a period of one year after the individual ceases to be employed by us, he or she will not solicit business related to the development or sales of pharmaceutical products from any entity, organization or person which is contracted with us, which has been doing business with us, or which the employee knew we were going to solicit business from at the time he or she ceased to be employed. The agreements also prohibit a terminated employee from soliciting other of our employees. The employment agreements impose obligations regarding confidential information and state that any discoveries or improvements conceived, developed or otherwise made by the

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employees, or with others, are deemed our sole property. The employment agreements do not contain any termination or change in control provisions.

Pension Benefits

We do not have any plan that provides for payments or other benefits at, following, or in connection with retirement.

Nonqualified Deferred Compensation

We do not have any plan that provides for the deferral of compensation on a basis that is not tax qualified.

Compensation for Executive Officers

Our Compensation Committee meets outside the presence of all of our executive officers to consider appropriate compensation for our CEO. For all other executives, the Committee meets outside the presence of all executive officers except our CEO.

Mr. Kazimi annually reviews each other executive s performance with the Committee and makes recommendations to the Compensation Committee with respect to the appropriate base salary, annual bonuses and grants of long-term equity incentive awards. These recommendations, as with other employees, are based on data obtained from the Radford survey. Based in part on these recommendations from our CEO, the Compensation Committee approves the annual compensation package of our executives other than our CEO. The Compensation Committee also annually analyzes Mr. Kazimi s performance and determines his base salary, annual bonuses and grants of long-term equity incentive awards based on its assessment of his performance.

2010 Executive Compensation

Our Compensation Committee believes that our executive officers made significant, favorable progress in meeting corporate and individual objectives in 2010 and that the progress justified the resulting increases in base salary, annual bonuses and equity awards. In 2010, growth in the Company s revenues continued and profitability was maintained in spite of a significant investment in sales and marketing to support Caldolor and the Company s other products. We ended 2010 in a particularly strong financial position with profitable, cash flow operations, significant cash reserves as well as a significant reduction in our debt. Management identified and submitted two supplemental New Drug Applications for Acetadote and with the approval of that product s new formulation successfully executed on its strategy to support that brand. We also strengthened our corporate infrastructure in 2010 by converting our field sales force of representatives and managers from their prior contract status to Cumberland employees and added new sales training and medical science liaison departments to the organization. We completed the expansion of our headquarter office facilitates which included an upgrade in our communications systems. The factors considered by our Compensation Committee in assessing performance of executive officers in 2010 are set forth below:

Ø **A.J. Kazimi.** Mr. Kazimi has overseen significant growth in revenues and net income for our company and has provided leadership in a challenging economic and financial markets environment. He has led the Company s financing initiatives including our initial public offering with our listing on the Nasdaq Global Select Market. He has continued to position us for future growth through the development activities to support our product line as well as the expansion in our infrastructure at all levels adding key personnel and partners. He also led our subsidiary Cumberland Emerging Technologies (CET) and progressed our pipeline of product candidates with NIH support in 2010.

Ø

Jean W. Marstiller. Ms. Marstiller has assumed additional administrative responsibility as the number of our employees has increased. She continues to play a key role in recruiting talented individuals to our management team, and in 2010 led the Company s efforts to convert our field sales representatives from their contract arrangement to Cumberland employees. She also formed and managed our new sales training department and oversaw the expansion of our headquarter facilities and communications systems in 2010.

- **Martin E. Cearnal.** Mr. Cearnal was instrumental in the sales growth of our products in 2010 including the progress we made in the launch of Caldolor with a growing number of institutions stocking the product. He continued to direct strategy for the marketing campaigns and activities to support all our products. He is also continued as a key member of the Company s business development team, and helped present Cumberland at key investor meetings and conferences.

- **Leo Pavliv.** Mr. Pavliv has provided leadership for the clinical development activities of our company, and under his guidance we completed two supplemental New Drug Applications for Acetadote leading to the approval of the new formulation to support that product. He continues to be responsible for the performance and expansion of our manufacturing partners and their capacity to supply high-quality products. He also established and managed our new medical science liaison capability to support the Company s brands in 2010.

- **David L. Lowrance.** Mr. Lowrance was responsible for the Company s timely financial reports in 2010. He also oversaw the further development of our financial reporting infrastructure including the systems needed to support Sarbanes-Oxley compliance. He led the negotiations to expand our credit facilities in 2010. Under his leadership, Cumberland s financial performance continued to improve, and our company remained profitable in 2010, ending the year in a strong financial position with significant cash reserves and a significant reduction in our debt.

Director compensation

Annual compensation for each of our non-executive directors for service on the Board of Directors for 2010 was $50,000 plus 1,000 stock options issued pursuant to the 2007 Directors Plan, or Directors Plan. Directors who had the responsibility for chairing key committees received additional annual compensation of $35,000. The compensation for non-executive directors for 2011 will be the same as in 2010, except 1,000 restricted shares will be provided in lieu of stock options. All such director fees are paid in a combination of cash and/or equity, as we and each director shall agree. Cash fees will be accrued and paid on either a monthly or quarterly basis. Directors will not receive separate compensation for attendance at board meetings, board committee meetings or other company board-related activities. Outside directors will be reimbursed for all reasonable and necessary business expenses incurred in the performance of their board responsibilities. Long-term equity incentive awards to our directors were made pursuant to the 1999 Plan until April 2007, and thereafter, pursuant to the Directors Plan.

The purposes of the Directors Plan are:

- to strengthen our ability to attract, motivate, and retain qualified independent directors; and

- to replace the 1999 Plan without impairing the vesting or exercise of any option granted to any director thereunder.

The Directors Plan authorizes the issuance to non-employee directors of each of the following types of awards:

- options (all options to be issued under the Directors Plan will not meet IRS requirements for special tax treatment and therefore are non-qualified options);

- Ø restricted stock grants (shares subject to various restrictions and conditions as determined by our compensation committee); and

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- Ø stock grants (awards of shares of our common stock with full and unrestricted ownership rights).

The Compensation Committee of our Board of Directors administers the Directors Plan. In the event of a change in control of our company (as defined in the Directors Plan), all outstanding options would automatically become exercisable in full, and restrictions and conditions for other issued awards shall generally be deemed terminated or satisfied. Our Board of Directors may amend or terminate the Directors Plan, subject to shareholder approval if necessary, to comply with tax or regulatory requirements.

As of March 1, 2011, there were outstanding options to purchase a total of 5,100 shares of common stock pursuant to the 2007 Directors Plan. The exercise price per share under these options ranges from $6.69 to $11.29.

EXECUTIVE COMPENSATION AND RELATED INFORMATION

Summary Compensation Table

The following table sets forth the compensation for services in all capacities to our company for our fiscal years ended December 31, 2010, 2009 and 2008 for the named executive officers.

Name and Principal Position	Year	Salary	Bonus	Option Awards[1]	All Other Compensation	Total
A.J. Kazimi	2010	$ 398,000	$ 175,000	$ 193,000	$ 2,450	$ 768,450
Chief Executive	2009	366,000	175,000	141,444	2,300	684,744
Officer	2008	333,000	125,000	138,300		596,300
Jean W. Marstiller	2010	$ 216,750	$ 60,000	$ 33,680	$ 2,045	$ 312,475
Senior V.P. and	2009	204,500	70,000	59,130	1,870	335,500
Corporate Secretary	2008	187,000	55,000	60,300		302,300
Martin E. Cearnal	2010	$ 160,000	$ 45,000	$ 42,100	$	$ 247,100
Senior V.P. and Chief	2009	126,500	55,000			181,500
Commercial Officer	2008	57,500		120,960	80,000[2]	258,460
Leo Pavliv	2010	$ 282,000	$ 60,000	$ 50,520	$ 2,450	$ 394,970
V.P., Operations	2009	266,000	65,000	65,700	2,300	399,000
	2008	230,000	55,000	60,300		345,300
David L. Lowrance	2010	$ 200,000	$ 55,000	$ 29,470	$ 746	$ 285,216
V.P. and Chief	2009	186,400	65,000	52,560	690	304,650
Financial Officer	2008	172,600	45,000	53,600		271,200

(1) The grant date fair value of option awards was calculated using the Black-Scholes methodology and the assumptions outlined in the footnotes to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2010.

(2) Payment for services as a director in 2008.

Executive Officers of the Company

Set forth below is information regarding our executive officers including their ages, positions with our company and principal occupations and employers for at least the last five years. For information concerning executive officers ownership of our common stock, see SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

A.J. Kazimi, Chief Executive Officer. Mr. Kazimi, 52, founded our company in 1999 and has served as our Chief Executive Officer and Chairman of our Board of Directors since inception. His career includes more than 20 years in the biopharmaceutical industry. Prior to joining our company, he spent eleven years from 1987 to 1998 helping to build Therapeutic Antibodies Inc., a biopharmaceutical company, where as President and Chief Operating Officer he made key contributions to the company s growth from its start-up phase through its initial public offering and product launches.

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Mr. Kazimi oversaw operations in three countries and was personally involved with the company s product development strategies, licensing and distribution agreements, and the raising of more than $100 million through equity and debt financings. From 1984 to 1987, Mr. Kazimi worked at Brown-Forman Corporation, rising through a series of management positions and helping to launch several new products. Mr. Kazimi currently serves on the board of directors for the Nashville Health Care Council and Aegis Toxicology Sciences Corporation, a federally certified forensic toxicology laboratory. He also serves as Chairman and Chief Executive Officer of Cumberland Emerging Technologies, Inc., or CET. He holds a B.S. from the University of Notre Dame and an M.B.A. from the Vanderbilt Owen Graduate School of Management.

Jean W. Marstiller, Senior Vice President and Corporate Secretary. Ms. Marstiller, 61, joined our company in 1999. She oversees our administrative operations, human resources, site services and information systems, and became our Corporate Secretary in 2007. She has 19 years biopharmaceutical industry experience and was formerly Director of Administrative Operations at Therapeutic Antibodies Inc., where she worked from 1989 until 1998. In that capacity, she oversaw administrative services, information systems, and human resources. Ms. Marstiller was employed by Brown-Forman Corporation from 1982 until 1987, where she held management level positions in the areas of finance and operations. She holds a B.E. from Vanderbilt University and attended the Vanderbilt Owen Graduate School of Management.

Martin E. Cearnal, Senior Vice President and Chief Commercial Officer. Mr. Cearnal, 66, has served as a member of our Board of Directors since 2004. In 2008, he joined our management team to head commercial development for Cumberland. He is the former President and Chief Executive Officer of Physicians World, which became the largest provider of continuing medical education during his tenure from 1985 to 2000. Physicians World was acquired by Thomson Healthcare in 2000, and Mr. Cearnal served as President of Thomson Physicians World from 2000 to 2003 and Executive Vice President-Chief Strategy Officer for Thomson Medical Education from 2003 through 2005. He then became been Executive Vice President-Chief Strategy Officer for Jobson Medical Information. Mr. Cearnal has more than 40 years of experience in the healthcare industry and has been involved with the launches of such noteworthy pharmaceutical products as Lipitor ®, Actos®, Intron-A®, Straterra ®, Botox ® and Humira®. He spent 17 years at Revlon Healthcare in a variety of domestic and international pharmaceutical marketing roles culminating in his position as Vice President, Marketing for International Operations. He serves the industry through several organizations, including the Coalition for Healthcare Communication and the National Task Force on CME Provider/Industry Collaboration. He has a B.S. degree from Southeast Missouri State University.

Leo Pavliv, R. Ph., Senior Vice President, Operations. Mr. Pavliv, 50, has served as our Vice President, Operations since 2003, and in 2009, was named Senior Vice President. He is responsible for Cumberland s overall drug development, including manufacturing and quality operations, and has 25 years of experience developing pharmaceutical and biological products. From 1997 to 2003 he worked at Cato Research, a contract research organization, most recently as Vice President of Pharmaceutical Development where he oversaw development of a wide variety of products throughout the development cycle. Prior to 1997, he held various scientific and management positions at both large pharmaceutical and smaller biopharmaceutical firms including Parke-Davis from 1984 to 1986, Agouron Pharmaceuticals from 1992 to 1997, ProCyte from 1989 to 1992, and Interferon Sciences from 1986 to 1989. He is a registered pharmacist (R.Ph.) and is regulatory affairs certified (RAC). Mr. Pavliv holds a B.S., Pharmacy, and an M.B.A. from Rutgers University.

David L. Lowrance, Vice President and Chief Financial Officer. Mr. Lowrance, 43, is responsible for overseeing all our accounting and financial activities, including financial reporting and planning. He has been with us since 2003 and has more than 20 years of accounting and financial experience in both international business and manufacturing. From 1994 to 2003, he spent eight years with two global conglomerates, including four years as Senior Vice President for Icore International, a division of Smiths Group, PLC. Prior to that, Mr. Lowrance worked as a senior accountant for Ernst & Young,

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LLP from 1990 to 1994. He is a Certified Public Accountant, or CPA, and holds a B.B.A. from the University of Georgia.

James L. Herman, Senior Director, National Accounts and Corporate Compliance Officer. Mr. Herman, 55, handles all national accounts sales, including wholesalers and retail chain buying offices, managed care home offices and federal government accounts. He is also charged with overseeing our corporate compliance efforts. He has been with us since 2003 and has 19 years of pharmaceutical industry experience. From 1998 to 2003, he was with Solvay Pharmaceuticals and served as Director of Managed Care as well as Director of Trade Affairs and Customer Service. From 1990 to 1998, Mr. Herman was with Schwarz Pharma, where he held national sales leadership positions in National Accounts and Managed Care. He holds a B.S. from Indiana University and an M.B.A. from Cardinal Stritch University.

Amy Dix Rock, Ph.D., Senior Director, Regulatory and Scientific Affairs. Dr. Rock, 40, joined our company in 2001 and built our Regulatory Affairs Department and infrastructure. In addition to managing all interactions between our company and the FDA, Dr. Rock oversees the preparation of pre-approval and post-approval regulatory submissions. Her additional responsibilities include involvement in protocol development and clinical trials management, overseeing our medical call center and supporting our corporate compliance initiatives. She holds a B.A. from Washington University, a Ph.D. in Immunology from the University of Kentucky, and an M.B.A. from the Vanderbilt Owen Graduate School of Management.

The following table sets forth information regarding grants of plan-based awards we granted to our named executive officers during the fiscal year ended December 31, 2010:

GRANTS OF PLAN-BASED AWARDS

Name	Grant Date	All Other Option Awards: Number of Securities Underlying Options	Exercise or Base Price of Option Awards ($/Sh)(1)	Grant Date Fair Value of Stock and Option Awards
A. J. Kazimi	3/26/2010	50,000	$ 12.42	$ 193,000
Jean W. Marstiller	3/26/2010	8,000	11.29	33,680
Martin E. Cearnal	3/26/2010	10,000	11.29	42,100
Leo Pavliv	3/26/2010	12,000	11.29	50,520
David L. Lowrance	3/26/2010	7,000	11.29	29,470

(1) Represents the fair value of the Company s common stock as determined by the Board of Directors on the date of grant. For Mr. Kazimi s awards, the exercise price is 110% of the fair value of common stock on the date of grant.

Our executive compensation policies and practices, pursuant to which the compensation set forth in the Summary Compensation Table and the Grants of Plan-Based Awards Table was paid or awarded, are described above under COMPENSATION DISCUSSION AND ANALYSIS. A summary of certain material terms of our compensation plans and arrangements is set forth above under COMPENSATION DISCUSSION AND ANALYSIS Base Salary and Annual Bonuses and COMPENSATION DISCUSSION AND ANALYSIS Long-Term Equity Incentive Compensation.

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Outstanding Equity Awards at Fiscal Year-End

The following table sets forth information regarding unvested stock and unexercised option awards held by our named executive officers as of December 31, 2010:

Name	Option Awards			
	Number of Securities Underlying Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price	Option Expiration Date
A.J. Kazimi[(1)]	6,930		$ 1.63	12/18/2011
	20,000		9.90	6/30/2011
	22,500	7,500	14.30	7/31/2013
	15,000	15,000	14.30	2/16/2019
	12,500	37,500	12.42	3/26/2015
Jean W. Marstiller[(2)]	9,230		1.63	1/4/2012
	400		3.50	1/31/2013
	10,000		6.00	4/1/2014
	15,000		6.00	1/15/2015
	11,000		9.00	6/30/2016
	12,000		11.00	2/2/2017
	6,750	2,250	13.00	7/31/2018
	4,500	4,500	13.00	2/16/2019
	2,000	6,000	11.29	3/26/2015
Martin E. Cearnal[(3)]	4,000		3.50	1/31/2013
	4,000		6.00	4/25/2014
	8,000		6.00	6/4/2014
	13,000	5,000	13.00	7/22/2018
	2,500	7,500	11.29	3/26/2015
Leo Pavliv[(4)]	3,000		1.63	9/30/2011
	160,000		3.50	4/14/2013
	40,000		6.00	1/15/2015
	12,000		11.00	2/2/2017
	6,750	2,250	13.00	7/22/2018
	5,000	5,000	13.00	2/16/2019
	3,000	9,000	11.29	3/26/2015
David L. Lowrance[(5)]	90,000		3.50	1/30/2013
	4,000		6.00	4/1/2014
	25,000		6.00	1/15/2015
	10,000		11.00	2/2/2017
	6,000	2,000	13.00	7/31/2018
	4,000	4,000	13.00	2/16/2019
	1,750	5,250	11.29	3/26/2015

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(1) A.J. Kazimi:

- Ø 6,930 options granted on December 18, 2001; vested immediately.
- Ø 20,000 options granted on June 30, 2006; 25% vested each December 31, 2006, 2007, 2008 and 2009.
- Ø 30,000 options granted on July 31, 2008; 25% vested each December 31, 2008 and 2009; remainder vests 25% equally each December 31, 2010 and 2011.
- Ø 30,000 options granted February 16, 2009; 25% vested each December 31, 2009, 2010, 2011 and 2012.
- Ø 50,000 options granted March 26, 2010; 25% vested each December 31, 2010, 2011, 2012 and 2013.

(2) Jean W. Marstiller:

- Ø 9,230 options granted on January 4, 2002; vested immediately.
- Ø 400 options granted on January 31, 2003; vested immediately.
- Ø 10,000 options granted on April 1, 2004; vested immediately.
- Ø 15,000 options granted on January 15, 2005; 3,000 vested immediately; 3,000 vested each December 31, 2005, 2006, 2007 and 2008.
- Ø 11,000 options granted on June 30, 2006; 2,750 vested each December 31, 2006, 2007, 2008 and 2009.
- Ø 12,000 options granted on February 2, 2007; 3,000 vested each December 31, 2007, 2008 and 2009; remainder vests December 31, 2010.
- Ø 9,000 options granted on July 31, 2008; 25% vested each December 31, 2008 and 2009; remainder vests 25% equally each December 31, 2010 and 2011.
- Ø 9,000 options granted on February 16, 2009; 25% vested on each December 31, 2009, 2010, 2011 and 2012.
- Ø 8,000 options granted March 26, 2010; 25% vested each December 31, 2010, 2011, 2012 and 2013.

(3) Martin E. Cearnal:

- Ø 4,000 options granted on January 31, 2003; vested immediately.
- Ø 4,000 options granted on April 25, 2004; vested immediately.
- Ø 8,000 options granted on June 4, 2004; 4,000 vested each May 1, 2005 and 2006.
- Ø 18,000 options granted on July 22, 2008; 3,000 vested on December 31, 2008; 5,000 vested on December 31, 2009; 5,000 to vest on each December 31, 2010 and 2011.
- Ø 10,000 options granted March 26, 2010; 25% vested each December 31, 2010, 2011, 2012 and 2013.

(4) Leo Pavliv:

- Ø 3,000 options granted on September 30, 2001, vested immediately.
- Ø 160,000 options granted on April 14, 2003; 25% vested each December 31, 2003, 2004, 2005 and 2006.
- Ø 40,000 options granted on January 15, 2005; all options vested on December 31, 2009.

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- Ø 12,000 options granted on February 2, 2007; 25% vested each December 31, 2007, 2008 and 2009; remainder vests on December 31, 2010.
- Ø 9,000 options granted on July 22, 2008; 25% vested on each December 31, 2008 and 2009; remainder vests 25% equally each December 31, 2010 and 2011.
- Ø 10,000 options granted on February 16, 2009; 25% vested on each December 31, 2009, 2010, 2011 and 2012.
- Ø 12,000 options granted March 26, 2010; 25% vested each December 31, 2010, 2011, 2012 and 2013.

(5) David L. Lowrance:

- Ø 90,000 options granted on January 30, 2003; 10,000 vested immediately; 20,000 options vested each December 31, 2003, 2004, 2005 and 2006.
- Ø 4,000 options granted on April 1, 2004; vested immediately.
- Ø 25,000 options granted on January 15, 2005; all options vested on December 31, 2009.
- Ø 10,000 options granted on February 2, 2007; 2,500 vested each December 31, 2007, 2008 and 2009; 2,500 to vest on December 31, 2010.
- Ø 8,000 options granted on July 31, 2008; 25% vested each December 31, 2008 and 2009; 2,000 vests each December 31, 2010 and 2011.
- Ø 8,000 options granted on February 16, 2009; 25% vested on each December 31, 2009, 2010, 2011 and 2012.
- Ø 7,000 options granted March 26, 2010; 25% vested each December 31, 2010, 2011, 2012 and 2013.

Option Exercises and Stock Vested

The following table sets forth information regarding the exercise of stock option awards held by our named executive officers during the fiscal year ended December 31, 2010:

	Option Awards	
Name	**Number of Shares Acquired on Exercise (#)**	**Value Realized on Exercise**
Martin E. Cearnal	7,400	$ 36,371
Leo Pavliv	18,000	137,970

Director Compensation Table

The following table sets forth information regarding the aggregate compensation we paid to the members of our Board of Directors during the fiscal year ended December 31, 2010:

Name	Fees Earned or Paid in Cash	Option Awards ($)	All Other Compensation	Total
Dr. Robert G. Edwards	$ 85,000	$ 5,340(1)	$	$ 90,340
Dr. Lawrence W. Greer	85,000	5,340(2)		90,340
Thomas R. Lawrence	85,000	5,340(3)		90,340
Dr. Gordon Bernard	35,000	3,836(4)	50,000(7)	88,836
James R. Jones	35,000	2,234(5)		37,234
Jonathan Griggs	35,000	2,234(6)	9,875(7)	47,109

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(1) The fair value on March 26, 2010, the date of grant, was $5.34 per share. As of December 31, 2010, Dr. Edwards had 35,908 options outstanding.

(2) The fair value on March 26, 2010, the date of grant, was $5.34 per share. As of December 31, 2010, Dr. Greer had 37,600 options outstanding.

(3) The fair value on March 26, 2010, the date of grant, was $5.34 per share. As of December 31, 2010, Mr. Lawrence had 39,466 options outstanding.

(4) Dr. Bernard was granted options to purchase 300 shares of common stock on March 26, 2010 as partial compensation under an advisory agreement. The fair value on March 26, 2010 was $5.34 per share. Dr. Bernard was granted options to purchase 700 shares of common stock on June 1, 2010 as partial compensation for his services as a Board member. The fair value on June 1, 2010 was $3.19 per share. As of December 31, 2010, Dr. Bernard had 9,866 options outstanding.

(5) The fair value on June 1, 2010, the date of grant, was $3.19 per share. As of December 31, 2010, Mr. Jones had 700 options outstanding.

(6) The fair value on June 1, 2010, the date of grant, was $3.19 per share. As of December 31, 2010, Mr. Griggs had 3,300 options outstanding.

(7) Represents fees earned under an advisory agreement in effect prior to being elected as a Board member in April 2010. The advisory agreements remained in effect throughout 2010.

CORPORATE GOVERNANCE

Meetings of the Board of Directors and Committees

Board of Directors

The property, affairs and business of our company are under the general management of our Board of Directors as provided by the laws of the State of Tennessee and our Bylaws. We have standing Audit, Compensation and Nominating Committees of the Board of Directors. The separately designated standing Audit Committee has been operating in accordance with section 3(a)(58)(A) of The Securities Exchange Act of 1934, as amended, or the Exchange Act. The Board of Directors held three meetings during fiscal 2010. Each director attended 100% of the aggregate of the total meetings of the Board and the total number of meetings held by all committees of the Board on which such director served during fiscal 2010. The Company currently has no formal policy with respect to the attendance of members of the Board of Directors at annual meetings. Seven of our nine directors attended our 2010 Annual Meeting. However, Mr. Jacobs joined the board after our 2010 Annual Meeting.

Director Independence

The Board of Directors affirmatively determines the independence of each director in accordance with the NASDAQ Global Select Market rules and listing standards. The Board has determined that Messrs. Lawrence, Greer, Jones, Griggs, Jacobs and Edwards each qualify as independent non-employee directors with no relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director.

Company Leadership Structure

The business of the Company is managed under the direction of the Board, which is elected by the Company s shareholders. The basic responsibility of the Board is to lead the Company by exercising its business judgment to act in what each director reasonably believes to be the best interests of Cumberland and its shareholders. Leadership is important to facilitate the Board acting effectively as a working group so that the Company and its performance may benefit. The role of the Chairman includes providing continuous feedback on the direction, performance and strategy of the Company, serving as Chair of regular and executive sessions of the Board, setting the Board s agenda with the Company, and leading the Board in anticipating and responding to crises. The Board believes that the advisability of having a separate or combined chairman and chief executive officer is dependent upon the strengths of the individuals that hold these positions and the most effective means of leveraging these strengths. At this time, given the composition of the Company s Board, the effective leadership of Mr. Kazimi as both Chairman of the Board and Chief Executive Officer, and the current challenges faced by the Company, the Board believes that combining the chief executive officer and Board chairman positions provides the Company with the right foundation to pursue the Company s strategic and operational objectives, while maintaining effective oversight and objective evaluation of the performance of the Company.

Board Oversight of Risk

Pursuant to its charter, and in compliance with applicable NASDAQ Global Select Market listed company rules, the Audit Committee is responsible for discussing the Company s policies with respect to overall risk assessment and risk management. To accomplish this, the Audit Committee reviews risks that may be material to the Company, as well as major legislative and regulatory developments which could materially impact the Company s risks. In addition, the Board of Directors has delegated to the Compensation Committee the responsibility of assessing the risks associated with the Company s compensation practices and policies for employees, including a consideration of the counterbalance of risk-taking incentives and risk-mitigating factors in Company practices and policies. Finally, the full Board reviews risks that may be material to the Company, including those detailed in the Audit Committee s reports and as disclosed in the Company s quarterly and annual reports filed with the SEC. The goal of these processes is to achieve serious and thoughtful board-level attention to the Company s risk management process and system, the nature of the material risks faced by the Company, and the adequacy of the Company s risk management process and system designed to respond to and mitigate these risks.

Audit Committee

The Board of Directors has instructed the Audit Committee to meet periodically with our management and independent registered public accounting firm to, among other things, review the results of the annual audit and quarterly reviews and discuss our financial statements, recommend to our Board the independent registered public accounting firm to be retained, and receive and consider the auditors comments as to controls, adequacy of staff and management performance and procedures in connection with audit and financial controls. The Audit Committee is also authorized to review related party transactions for potential conflicts of interest. The Audit Committee s functions are further described under the heading Audit Committee Report. A copy of the written charter adopted by the Board of Directors for the Audit Committee and as currently in effect is included on our website, www.cumberlandpharma.com.

The Audit Committee is comprised of Dr. Lawrence W. Greer, Chairman, Mr. Thomas R. Lawrence and Mr. James Jones. The majority of the members of the Audit Committee are independent, as such term is defined in the listing standards for companies listed on the NASDAQ Global Select Market. The majority of the members of the Audit Committee also satisfy the Securities and Exchange Commission s additional independence requirements for members of audit committees. The Board has determined that James Jones is an audit committee financial expert as defined under Item 401(e)(2) of Regulation S-K of the Securities Act of 1933. The Audit Committee met four times during fiscal year 2010.

Compensation Committee

The Compensation Committee is authorized to review annual salaries and bonuses of our executive officers and has the authority to determine the recipients of options and stock awards, the time or times at which options and stock awards shall be granted, the exercise price of each option and the number of shares to be issuable upon the exercise of each option under our stock plans. In addition, the Compensation Committee recommends to the full Board the compensation of our Chief Executive Officer. In fulfilling its responsibilities, the Compensation Committee has the authority to engage independent compensation consultants or legal advisers when determined by the Committee to be necessary or appropriate. The members of the Compensation Committee consist of Mr. Thomas R. Lawrence, Chairman, Dr. Robert G. Edwards and Dr. Lawrence W. Greer. A copy of the written charter adopted by the Board of Directors for the Compensation Committee and as currently in effect is included on our website, *www.cumberlandpharma.com*. All three members of the Compensation Committee are independent, as such term is defined in the listing standards for companies listed on the NASDAQ Global Select Market. The Compensation Committee met three times during fiscal year 2010.

The Compensation Committee reviews the risks and rewards associated with the Company s compensation programs. The Compensation Committee designs compensation programs with features that mitigate risk without diminishing the incentive nature of the compensation. We believe our programs encourage and reward prudent business judgment and appropriate risk-taking over the long term.

Compensation Committee Interlocks and Insider Participation

The members of the Compensation Committee are set forth above. The Compensation Committee is comprised entirely of independent directors. In addition, none of the Company s executive officers serve as a member of the Board of Directors or Compensation Committee of any entity that has one or more of its executive officers serving as a member of our Board of Directors or Compensation Committee.

Compensation Committee Report

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis included in this Proxy Statement with management. Based on the Compensation Committee s review of and discussions with management with respect to the Compensation Discussion and Analysis, the Compensation Committee has recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement.

Submitted by the Compensation Committee

Mr. Thomas R. Lawrence	Dr. Lawrence W. Greer	Dr. Robert G. Edwards
(Chair)		

Nomination of Directors

The Nominating Committee, the members of which are currently Dr. Robert G. Edwards, Chairman, Dr. Lawrence W. Greer, and Mr. Thomas R. Lawrence, are responsible for identifying, screening and recommending qualified candidates to serve on our Board of Directors. The Nominating Committee is directed, among other things, to: develop and recommend to the Board specific guidelines and criteria for selecting nominees to the Board; formulate a process to identify and evaluate candidates to be recommended; review periodically compensation programs for non-employee directors and make recommendations for changes when appropriate; and evaluate the performance of incumbent members of the Board to determine whether to recommend such persons for re-election. All three members of the Nominating Committee are independent as defined in the listing standards for companies listed on the NASDAQ Global Select Market.

It is our policy that the Nominating Committee consider recommendations for the nomination of directors submitted by our significant, long-term shareholders (generally, shareholders that have beneficially owned more than 5% of our outstanding shares for at least two years). The Nominating Committee will give consideration to such recommendations that have been submitted in accordance with procedural requirements adopted by the Nominating Committee. All such shareholder nominating recommendations must be in writing, addressed to the Nominating

Committee, care of the Corporate Secretary at Cumberland Pharmaceuticals Inc., 2525 West End Avenue, Suite 950, Nashville, Tennessee 37203. Submissions must be made by mail, courier or personal delivery. E-mailed submissions will not be considered. Shareholders wishing to recommend nominees for election as directors at an annual meeting should submit such recommendation, together with any relevant information that they wish the Nominating

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Committee to consider, to the Corporate Secretary no later than 120 days prior to the date of the notice of annual meeting released to shareholders in connection with the prior year s annual meeting.

The Committee has determined that, at the minimum, nominees for directorship should possess the highest personal and professional ethics, integrity and values, and be committed to representing the long-term interests of the Company s shareholders. They must also have an inquisitive and objective perspective, practical wisdom and mature judgment. The Company endeavors to have a board representing diverse experience in areas that are relevant to the Company s business activities. Directors must be willing to devote sufficient time to carrying out their duties and responsibilities efficiently, and should be committed to serve on the Board for an extended period of time.

Prior to nominating a candidate for election to the Board, the Committee will review the qualifications of each candidate. Final candidates may be interviewed by the Company s Chairman of the Board and one or more other Board members. The Committee will then make a recommendation to the Board based on its review, the results of interviews with the candidate and all other available information.

In determining whether to nominate an incumbent director for reelection, the Committee will evaluate each incumbent s continued service, in light of the Board s collective requirements, at the time such Director comes up for reelection.

In determining whether to include a shareholder nominee in the Board s slate of nominees, the Committee will consider all information relevant in their business judgment to the decision of whether to nominate the particular candidate for a Board seat, taking into account the current composition of the Company s Board.

In addition to the foregoing, shareholders may nominate directors for election without consideration by the Nominating Committee so long as we are provided with proper notice of such nomination, which notice includes all the information required pursuant to Regulation 14A under the Exchange Act including the consent to serve as a director.

The Nominating Committee approved Messers. Robert G. Edwards, Jonathan Griggs and Joey Jacobs for inclusion on the Company s proxy card for election to the Board of Directors at the 2011 Annual Meeting based on the aforementioned review process. A copy of the written charter adopted by the Board of Directors for the Nominating Committee and as currently in effect is included on our website, www.cumberlandpharma.com.

Code of Business Conduct and Ethics

The Company has adopted a Code of Business Conduct and Ethics that applies to all of our employees, officers and directors, including the principal executive officer, principal financial officer and principal accounting officer. It covers all areas of professional conduct, but not limited to, conflicts of interest, disclosure obligations, insider trading, confidential information, as well as compliance with all laws, rules and regulations applicable to Cumberland s business. You can access the latest copy of our Code of Business Conduct and Ethics on our website, www.cumberlandpharma.com. Or, to obtain a copy of Cumberland s Code of Business Conduct and Ethics, without charge, any person may submit a written request to Cumberland Pharmaceuticals Inc., 2525 West End Avenue, Suite 950, Nashville, Tennessee 37203 Attention: Corporate Secretary

Transactions with Related Person

Currently, no related person, to our knowledge, is a party to any material transactions with the Company other than the compensation discussed in the section labeled EXECUTIVE COMPENSATION AND RELATED INFORMATION.

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Legal Proceedings

Currently, no director or executive officer, to our knowledge, is a party to any material legal proceeding adverse to the interests of the Company. Additionally, no director or executive officer has a material interest in a material proceeding adverse to the Company.

Shareholder Communications with the Board

Any shareholder can communicate with all directors or with specified directors by sending correspondence to our Corporate Secretary at 2525 West End Avenue, Suite 950, Nashville, Tennessee 37203. All such letters will be forwarded to the entire Board or to the Director(s) specified by the shareholder.

SHAREHOLDER PROPOSALS

At the Annual Meeting each year, the Board of Directors submits to shareholders its nominees for election as directors. The Board of Directors may also submit other matters to the shareholders for action at the Annual Meeting. Any proposal which a shareholder intends to present in accordance with Rule 14a-8 of the Exchange Act at our next annual meeting of shareholders to be held in 2012 must be received by Cumberland Pharmaceuticals Inc., not less than one hundred twenty (120) days prior to March 11, 2012. Only proposals conforming to the requirements of Rule 14a-8 of the Exchange Act that are timely received by the Company will be included in the Proxy Statement and Proxy in 2012. Any such proposal should be directed to our Corporate Secretary at our principal executive offices located at 2525 West End Avenue, Suite 950, Nashville, Tennessee 37203.

OTHER MATTERS

Miscellaneous

Our management does not intend to present any other items of business and is not aware of any matters other than those set forth in this Proxy Statement that will be presented for action at the Annual Meeting. However, if any other matters properly come before the Annual Meeting, the persons named in the enclosed proxy intend to vote the shares of our common stock that they represent in accordance with their best judgment.

Annual Report

A copy of the Company s Annual Report on Form 10-K without exhibits, for the fiscal year ended December 31, 2010 filed with the Securities and Exchange Commission accompanies this Proxy Statement. Copies of the Form 10-K exhibits are available without charge. Shareholders who would like such copies should direct their requests in writing to: Cumberland Pharmaceuticals Inc., 2525 West End Avenue, Suite 950, Nashville, Tennessee 37203, Attention: Corporate Secretary.

By Order of the Board of Directors,

/s/ A.J. Kazimi
A.J. Kazimi
Chairman and Chief Executive Officer

Nashville, Tennessee
March 11, 2011

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FOLD AND DETACH HERE AND READ THE REVERSE SIDE

PROXY

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS OF CUMBERLAND PHARMACEUTICALS INC.

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To Be Held April 19, 2011

The undersigned hereby appoints A.J. Kazimi and Jean W. Marstiller, or either of them, as proxies, with full power of substitution, and hereby authorizes each of them to represent and vote, as designated on the reverse side, all of the shares of Common Stock of Cumberland Pharmaceuticals Inc., held of record by the undersigned on March 11, 2011 at the Annual Meeting of Shareholders to be held at the Vanderbilt University Student Life Center, 310 25th Avenue South, Nashville, Tennessee 37240 on Tuesday, April 19, 2011, at 10 a.m. Central time, or any adjournment(s) or postponement(s) thereof, with all powers which the undersigned would possess if personally present, upon and in respect of the following matters and in accordance with the instructions specified on the reverse side.

THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER DIRECTED HEREIN BY THE UNDERSIGNED SHAREHOLDER. IF NO DIRECTIONS ARE GIVEN, THIS PROXY WILL BE VOTED FOR ALL OF THE DIRECTOR NOMINEES NAMED IN PROPOSAL 1 ON THE REVERSE SIDE, FOR PROPOSAL 2, FOR PROPOSAL 3, AND EVERY THREE YEARS FOR PROPOSAL 4. THE PROXIES NAMED ABOVE ARE HEREBY AUTHORIZED TO VOTE IN THEIR DISCRETION UPON SUCH OTHER BUSINESS AS MAY PROPERLY COME BEFORE THE MEETING AND ANY ADJOURNMENT(S) OR POSTPONEMENT(S) THEREOF.

(Continued, and to be marked, dated and signed, on the other side)

FOLD AND DETACH HERE AND READ THE REVERSE SIDE

PROXY

Please mark your votes like this x

This Proxy, when properly executed, will be voted in the manner directed herein by the undersigned shareholder. If no direction is made, this Proxy will be voted FOR Proposals 1, 2, and 3 and Every Three Years for Proposal 4. I understand that I may revoke this Proxy only by: (i) written instructions to that effect, signed and dated by me, which must be actually received by the Corporate Secretary prior to the commencement of the Annual Meeting; (ii) properly submitting to the Company a duly executed proxy bearing a later date; OR (iii) appearing at the Annual Meeting and voting in person.

		FOR all nominees	WITHHOLD AUTHORITY for all nominees
1	For the election as directors of the nominees listed below, except to the extent that authority is specifically withheld. Nominees: Joey Jacobs, Jonathan Griggs, and Dr. Robert G. Edwards.	o	o

(INSTRUCTION: To withhold authority to vote for any individual nominee, write that nominee s name on the space provided below.)

		FOR	AGAINST	ABSTAIN
2	To ratify the appointment of KPMG LLP as independent registered accounting firm of the Company for fiscal year ending December 31, 2011.	o	o	o
3.	To approve all of the compensation of Cumberland s named executive officers, as disclosed pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, compensation tables and narrative discussion.	o	o	o

		EVERY YEAR	EVERY OTHER YEAR	EVERY THREE YEARS	ABSTAIN
4.	To vote for say on pay frequency.	o	o	o	o

In their discretion, the Proxies are authorized to vote upon such other business as may properly come before the meeting.

COMPANY ID:
PROXY NUMBER:
ACCOUNT NUMBER:

Signature **Signature** **Date**

Note: Please sign exactly as your name appears on your stock certificate. When shares are held by joint tenants, both should sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such. If the shares are owned by a corporation, sign in the full corporate name by the President or other authorized officer. If the shares are owned by a Partnership, sign in the name of the Partnership name by an authorized person. Please mark, sign, and date and return the Proxy promptly using the enclosed envelope.