

CUMBERLAND PHARMACEUTICALS INC

Form S-1/A

June 22, 2007

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**As filed with the Securities and Exchange Commission on June 22, 2007**

**Registration No. 333-142535**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**Amendment No. 1  
to  
FORM S-1  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933**

**Cumberland Pharmaceuticals Inc.**

*(Exact name of registrant as specified in its charter)*

**Tennessee**

*(State or other jurisdiction of  
incorporation or organization)*

**2834**

*(Primary Standard Industrial  
Classification Code Number)*

**62-1765329**

*(I.R.S. Employer  
Identification No.)*

**2525 West End Avenue, Suite 950**

**Nashville, Tennessee 37203**

**(615) 255-0068**

*(Address, including zip code, and telephone number, including  
area code, of registrant's principal executive offices)*

**A.J. Kazimi**

**Chairman and CEO**

**2525 West End Avenue, Suite 950**

**Nashville, Tennessee 37203**

**(615) 255-0068**

*(Name, address, including zip code, and telephone number, including area code, of agent for service)*

*Copies to:*

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**Approximate date of commencement of proposed offering to the public:** As soon as practicable after this registration statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 check the following box:

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

**The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

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The information in this preliminary prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

PRELIMINARY PROSPECTUS

SUBJECT TO COMPLETION

JUNE 22, 2007

**Shares**

**Common Stock**

This is the initial public offering of our common stock. No public market currently exists for our common stock. We are offering all of the \_\_\_\_\_ shares of our common stock offered by this prospectus.

We have applied to have our common stock included for quotation on The Nasdaq Global Market under the symbol CPIX .

**Investing in our common stock involves a high degree of risk. Before buying any shares, you should carefully read the discussion of material risks of investing in our common stock in Risk factors beginning on page 6 of this prospectus.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

	<b>Per share</b>	<b>Total</b>
Public offering price	\$	\$
Underwriting discounts and commissions	\$	\$
Proceeds, before expenses, to us	\$	\$

The underwriters may also purchase up to an additional \_\_\_\_\_ shares of our common stock at the public offering price, less the underwriting discounts and commissions payable by us, to cover over-allotments, if any, within 30 days from the date of this prospectus. If the underwriters exercise this option in full, the total underwriting discounts and commissions will be \$ \_\_\_\_\_, and our total proceeds, before expenses, will be \$ \_\_\_\_\_.

The underwriters are offering the common stock as set forth under Underwriting. Delivery of the shares will be made on or about \_\_\_\_\_, 2007.

**UBS Investment Bank**

**Jefferies & Company**

**Wachovia Securities**

**Morgan Joseph**

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Inside front cover of prospectus to feature two product photos:

[Artwork to be submitted]

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You should rely only on the information contained in this prospectus. We have not, and the underwriters have not, authorized anyone to provide you with additional information or information different from that contained in this prospectus. We are offering to sell, and seeking offers to buy, shares of our common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of shares of our common stock.

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Through and including \_\_\_\_\_, 2007 (the 25th day after the date of this prospectus), federal securities laws may require all dealers that effect transactions in our common stock, whether or not participating in this offering, to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

Amelior<sup>®</sup>, Acetadote<sup>®</sup> and the Cumberland Pharmaceuticals logo are trademarks or service marks of Cumberland Pharmaceuticals Inc. All other trademarks or service marks appearing in this prospectus are the property of their respective holders.



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## Prospectus summary

*This summary highlights select contents of this prospectus, and may not contain all of the information that you should consider before investing in our common stock. This summary should be read together with the more detailed information found elsewhere in this prospectus, including Risk factors and our consolidated financial statements and related notes beginning on page F-1. References in this prospectus to Cumberland, we, us and our refer to Cumberland Pharmaceuticals Inc. and our consolidated subsidiaries, unless the context indicates otherwise.*

**OUR COMPANY**

We are a profitable and 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. Unlike many emerging pharmaceutical and biotechnology companies, we have established both product development and commercialization capabilities, and believe our organizational structure can be expanded efficiently to accommodate our expected growth. Our management team consists of pharmaceutical industry veterans experienced in business development, clinical and regulatory affairs, and sales and marketing.

Since our inception in 1999, we have successfully funded the acquisition and development of our product portfolio with limited external investment, while maintaining profitable operations over the past three years. Our portfolio consists of two products approved by the U.S. Food and Drug Administration, or FDA, one late-stage development product candidate nearing completion of Phase III clinical trials and several pre-clinical development projects. We were directly responsible for the clinical development and regulatory approval of Acetadote, one of our marketed products, and are currently completing development of Amelior, our lead product candidate. We promote Acetadote and our other FDA-approved product, Kristalose, through dedicated hospital and gastroenterology sales forces, which together are comprised of 42 sales representatives and managers. We believe that our target markets are highly concentrated, and consequently can be penetrated effectively by small, dedicated sales forces without large-scale promotional activity. For the years 2004, 2005 and 2006, our net revenue was \$12.0 million, \$10.7 million and \$17.8 million, respectively, and our net income was \$558,000, \$2.0 million and \$4.4 million, respectively.

**OUR PRODUCTS**

Our key products and product candidates include:

<b>Product</b>	<b>Indication</b>	<b>Delivery</b>	<b>Status</b>
<b>Amelior®</b>	Pain and Fever	Injectable	Phase III
<b>Acetadote®</b>	Acetaminophen Poisoning	Injectable	Marketed
<b>Kristalose®</b>	Chronic and Acute Constipation	Oral Solution	Marketed

**Amelior**, our lead pipeline candidate, is an intravenous formulation of ibuprofen currently in Phase III clinical trials. We expect to complete clinical development by early 2008 and are preparing to submit our new drug application, or NDA, to the FDA for review. There currently are no injectable products approved for sale in the U.S. for the treatment

of both pain and fever. If we complete clinical development and receive FDA approval for Amelior on our current projected timeline, we believe Amelior would be the first injectable product available for the treatment of both pain and fever in the country. If approved, we plan to market Amelior in the U.S. through our hospital sales force and to market Amelior internationally through alliances with marketing partners. We believe Amelior currently represents our most significant product opportunity.

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According to IMS Health, the U.S. market for injectable analgesics, or pain relievers, exceeded \$302 million, or 491 million units, in 2006. This market consists primarily of the non-steroidal anti-inflammatory drug ketorolac and generic opioids. Despite having a poor safety profile, usage of ketorolac has grown from approximately 38 million units in 2003, or 7% of the market, to approximately 43 million units in 2006, or 9% of the market, according to IMS Health. Injectable opioids such as morphine and meperidine accounted for approximately 447 million units sold in 2006. While opioids are widely used for acute pain management, they are associated with a variety of side effects including sedation, nausea, vomiting, headache, cognitive impairment and respiratory depression. Based on the results of clinical studies to date, we believe Amelior represents a potentially safer alternative to ketorolac, the only non-opioid injectable pain relief drug available in the U.S. There is currently no approved injectable treatment for fever in the U.S.

**Acetadote** is the only intravenous formulation of N-acetylcysteine, or NAC, approved in the U.S. for the treatment of acetaminophen poisoning. Though safe at recommended doses, acetaminophen can cause liver damage with excessive use. Acetaminophen overdose is the most common cause of acute liver failure in adults in the U.S. According to the American Association of Poison Control Centers Toxic Exposure Surveillance System, acetaminophen was the leading cause of poisonings presenting to emergency departments in the U.S. in 2005, with approximately 77,000 cases treated.

NAC is accepted worldwide as the standard of care for treating acetaminophen overdose. Until our 2004 launch of Acetadote, the only FDA-approved form of NAC available in the U.S. was an oral preparation. Medical literature suggests that, for a number of patients, IV treatment is the only reasonable route of administration due to nausea and vomiting associated with the administration of oral NAC for acetaminophen overdose. Sales of Acetadote have increased consistently since we launched the product in June 2004. According to Wolters Kluwer Health Source<sup>tm</sup> Pharmaceutical Audit Suite, Acetadote sales to hospitals grew 43% from 2005 to 2006. Total sales to hospitals in 2006 were \$12.8 million. We believe that we can continue to expand market share, and that our Acetadote sales and marketing platform should help facilitate the anticipated launch of Amelior.

**Kristalose**, a prescription laxative product, is a crystalline form of lactulose designed to enhance patient acceptance and compliance. Based on data from IMS Health, the U.S. prescription laxative market has grown rapidly over the past few years, increasing from approximately \$206 million in 2003 to \$389 million in 2006, representing a compound annual growth rate of 24%. Wholesaler sales of Kristalose to pharmacies were \$10.5 million in 2006. During that year, we acquired exclusive U.S. commercialization rights to Kristalose, subsequently assembling a dedicated field sales force and re-launching the product in October 2006 under the Cumberland brand. We believe that we can increase market share for Kristalose given its many positive, competitive attributes including better taste, consistency, ease of use and cost relative to competing products.

**Early-stage product candidates.** Our pre-clinical product candidates are being developed by Cumberland Emerging Technologies, Inc., or CET, our 86%-owned subsidiary. CET collaborates with leading research institutions to identify and advance the development of promising pre-clinical product candidates within our target segments. Current CET projects include an improved treatment for fluid buildup in the lungs of cancer patients and an anti-infective for treating fungal infections in immuno-compromised patients.

## **OUR COMPETITIVE STRENGTHS**

We believe our key competitive strengths include the following:

Ø A significant late-stage product opportunity in Amelior;

- Ø Strong growth potential of our existing marketed products, Acetadote and Kristalose;
- Ø Our focus on underserved niche markets, including hospital acute care and gastroenterology;

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- Ø A profitable business with a history of fiscal discipline; and
- Ø Extensive management expertise in business development, clinical and regulatory affairs, and sales and marketing.

**OUR STRATEGY**

Our objective is to develop, acquire and commercialize branded pharmaceutical products for specialty physician market segments. Our strategy to achieve this objective includes the following key elements:

- Ø Successfully develop and commercialize Amelior, our lead product candidate in Phase III clinical trials;
- Ø Maximize sales of our marketed products, Acetadote and Kristalose;
- Ø Expand our dedicated hospital and gastroenterology sales forces;
- Ø Expand our product portfolio by acquiring rights to additional marketed products and late-stage product candidates; and
- Ø Develop a pipeline of early-stage products through CET, our majority-owned subsidiary.

**RISKS AFFECTING US**

Our business is subject to numerous risks that could prevent us from successfully implementing our business strategy. These and other risks are discussed further in the section entitled Risk factors immediately following this prospectus summary, and include the following:

- Ø Our Amelior product candidate has not been approved for sale and may never be successfully commercialized;
- Ø Sales of Acetadote and Kristalose currently generate almost all of our revenues. An adverse development regarding either of these products could have a material and adverse impact on our future revenues and profitability;
- Ø If any manufacturer we rely upon fails to produce our products and product candidates in the amounts we require on a timely basis, or fails to comply with stringent regulations applicable to pharmaceutical drug manufacturers, we may face delays in the commercialization of Amelior, or may be unable to meet demand for the product supplied by the manufacturer and may lose potential revenues;
- Ø We are dependent on a variety of other third parties. If these third parties fail to perform as we expect, our operations could be disrupted and our financial results could suffer; and
- Ø If we are unable to maintain and build an effective sales and marketing infrastructure, we will not be able to successfully commercialize and grow our products and product candidates.

**CORPORATE INFORMATION**

We were incorporated in Tennessee in 1999. Our principal executive offices are located at 2525 West End Avenue, Suite 950, Nashville, Tennessee 37203, and our telephone number is (615) 255-0068. Our website address is [www.cumberlandpharma.com](http://www.cumberlandpharma.com). The information on, or accessible through, our website is not part of this prospectus.



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The offering

Common stock we are offering                          shares

Common stock to be outstanding after this offering                          shares

Use of proceeds                          We estimate that the net proceeds from this offering will be approximately \$    million, or approximately \$    million if the underwriters exercise their over-allotment option in full, assuming an initial public offering price of \$    per share. We expect to use the net proceeds from this offering primarily for potential acquisitions and product development. We may use the proceeds from this offering for additional development and potential commercial introduction of our lead product candidate, Amelior. We may also use the proceeds from this offering to expand operations, including expansion of our sales forces, and for general corporate purposes.

Proposed Nasdaq Global Market Symbol    CPIX

The number of shares of common stock to be outstanding after this offering is based on                  shares outstanding as of                  and excludes:

- Ø                  shares of common stock issuable upon exercise of options issued under our 1999 Stock Option Plan and options issued in connection with debt financings in 2001 and 2003, at a weighted average exercise price of \$    per share;
- Ø                  shares of common stock issuable upon exercise of outstanding warrants at a weighted average exercise price of \$    and \$    per share;
- Ø                  shares of common stock issuable upon conversion of outstanding preferred stock; and
- Ø                  shares of common stock reserved for future issuance under our current stock option plans.

Unless otherwise indicated, all information in this prospectus assumes the underwriters do not exercise their option to purchase up to                  shares of our common stock to cover over-allotments. All information in this prospectus has been adjusted to reflect a                  for                  stock split of our common stock which became effective on                  , 2007.

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## Summary consolidated financial data

The tables below summarize our financial data as of the dates and for the periods indicated. You should read the following information together with the more detailed information contained in Selected consolidated financial data, Management's discussion and analysis of financial condition and results of operations and our consolidated financial statements and the accompanying notes included elsewhere in this prospectus.

The pro forma statement of operations and balance sheet data below gives effect to the conversion of shares of our preferred stock into shares of common stock. The pro forma as adjusted balance sheet data below gives further effect to the sale of shares of common stock that we are offering at an assumed initial public offering price of \$ per share, after deducting underwriting discounts and commissions and estimated offering expenses to be paid by us.

Statement of operations data:	Years Ended December 31,			Three Months Ended	
	2004	2005	2006	March 31, 2006	2007
	(in thousands, except per share data)				
	(unaudited)				
Net revenues	\$ 12,032	\$ 10,690	\$ 17,815	\$ 1,388	\$ 5,907
Operating income (loss)	1,569	750	2,224	(1,203)	1,251
Net income (loss) before income taxes	558	770	1,708	(1,217)	1,149
Net income (loss)	558	1,954	4,404	(1,217)	739
Net income (loss) per share basic	\$ 0.12	\$ 0.41	\$ 0.90	(\$ 0.25)	\$ 0.15
Net income (loss) per share diluted	\$ 0.07	\$ 0.24	\$ 0.55	(\$ 0.25)	\$ 0.09
Pro forma net income (loss) per share basic (unaudited)	\$ 0.10	\$ 0.35	\$ 0.77	(\$ 0.21)	\$ 0.13
Pro forma net income (loss) per share diluted (unaudited)	\$ 0.07	\$ 0.24	\$ 0.54	(\$ 0.21)	\$ 0.09
Weighted average shares outstanding basic	4,541	4,748	4,899	4,895	4,935
Weighted average shares outstanding diluted	7,741	8,045	8,016	8,225	8,310
Pro forma weighted average shares outstanding basic (unaudited)	5,397	5,603	5,754	5,750	5,790
Pro forma weighted average shares outstanding diluted (unaudited)	7,741	8,153	8,227	8,225	8,310

As of March 31, 2007

Balance sheet data:	Actual	Pro Forma	
		Forma	as Adjusted



	<b>(in thousands)</b> <b>(unaudited)</b>		
Cash and cash equivalents	\$ 8,999	\$	\$
Working capital	4,431		
Total assets	26,854		
Total long-term debt and other long-term obligations (including current portion)	9,947		
Preferred stock	2,743		
Accumulated deficit	(6,621)		
Total shareholders' equity	12,223		

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### Risk factors

*Investing in our common stock involves a high degree of risk. You should carefully consider the following risks, together with all of the information included in this prospectus, before investing in our common stock. If any of the following risks were to occur, our business, financial condition and results of operations could be materially and adversely affected. In that case, the trading price of our common stock could decline, and you might lose all or part of your investment.*

## **RISKS RELATED TO OUR BUSINESS**

### **Our Amelior product candidate has not been approved for sale and may never be successfully commercialized.**

We anticipate that a substantial portion of our future growth will come from sales of our Amelior product candidate. However, Amelior has neither been approved nor marketed by the U.S. Food and Drug Administration, or FDA, and it is still subject to risks associated with its clinical development.

Amelior is undergoing Phase III clinical trials to test its efficacy and safety. Delays in the completion of these clinical trials, which can result from unforeseen issues, FDA interventions, problems with enrolling patients and other reasons, could significantly delay commercial launch and affect our product development costs. Moreover, results from these clinical studies may not be as favorable as the results we obtained in prior, completed studies.

If the results of our clinical trials are favorable, we intend to submit to the FDA an application for marketing approval for Amelior. The FDA may decline to accept our application. If the FDA declines our application, it may require that we conduct additional studies and submit additional data prior to resubmitting the application. If the FDA accepts and reviews the application, it may still require that we conduct additional studies or submit other data. Conducting studies and collecting, analyzing and submitting necessary data can be time-consuming and expensive. The FDA may not act on our application during the timeframe that we expect. Moreover, the FDA might not approve our application, in which event we would not be able to sell Amelior in the U.S., or it might approve Amelior for only limited uses, in which event the market for this product could be significantly reduced, adversely affecting our commercial opportunity. In addition, new government regulations could prevent or delay regulatory approval of Amelior.

Amelior, which is injectable ibuprofen, is a non-steroidal anti-inflammatory drug, or NSAID. The widespread use of NSAIDs has meant that the adverse effects of these relatively safe drugs have become increasingly prevalent. The two main adverse drug reactions associated with NSAIDs relate to the gastrointestinal tract and the kidneys. Recent studies suggest there may also be a risk of cardiovascular adverse effects associated with NSAIDs. While we are currently studying the safety of Amelior in our clinical trials, the FDA may require additional safety data be collected prior to or after any approval of the product.

Even if Amelior is successfully developed and approved by the FDA, it may never gain significant acceptance in the marketplace and therefore never generate substantial revenue or profits for us. Physicians may determine that existing drugs are adequate to address patients' needs. For example, oral non-narcotic pain and fever reducers, as well as narcotic IV pain relievers, are widely available and commonly prescribed. If physicians determine that Amelior is safe and effective, it will still compete, on a patient-by-patient and physician-by-physician basis, with other therapeutic alternatives. Additionally, we are aware of other companies developing products that would address the same market that we are targeting for Amelior. The extent to which Amelior will be reimbursed by the U.S. government or third-party payors is also currently unknown, and reimbursement levels of Amelior compared to those of other competitive drugs will also affect the level of market acceptance.



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**Risk factors**

As a result of the foregoing and other factors, we do not know the extent to which Amelior will contribute to our future growth.

**Sales of Acetadote and Kristalose currently generate almost all of our revenues. An adverse development regarding either of these products could have a material and adverse impact on our future revenues and profitability.**

A number of factors may impact the effectiveness of our marketing and sales activities and the demand for our products, including:

- Ø The prices of Acetadote and Kristalose relative to other drugs or competing treatments;
- Ø Any unfavorable publicity concerning us, Acetadote or Kristalose, or the markets for these products such as information concerning product contamination or other safety issues in either of our product markets, whether or not directly involving our products;
- Ø Perception by physicians and other members of the healthcare community of the safety or efficacy of Acetadote, Kristalose or competing products;
- Ø Regulatory developments related to our marketing and promotional practices or the manufacture or continued use of Acetadote or Kristalose;
- Ø The inability of the orphan drug designation of Acetadote (under which the FDA granted seven years marketing exclusivity for intravenous treatment of moderate to severe acetaminophen overdose) to prevent development and marketing of a different product that competes with Acetadote;
- Ø Changes in intellectual property protection available for Acetadote or Kristalose or competing treatments;
- Ø The availability and level of third-party reimbursement for sales of Acetadote and Kristalose; and
- Ø The continued availability of adequate supplies of Acetadote and Kristalose to meet demand.

If demand for either Acetadote or Kristalose weakens, our revenues and profitability will likely decline.

Known adverse effects of our marketed products are documented in product labeling, including the product package inserts, medical information disclosed to medical professionals, and all marketing related materials. No unforeseen or serious adverse effects outside of those specified in current product labeling have been directly attributed to our approved products. The most frequently reported adverse events attributed to Acetadote include rash, urticaria (hives) and pruritus (itching), and anaphylactoid reactions. The most frequently reported adverse events attributed to Kristalose, and reported to us, include flatulence and nausea.

**If any manufacturer we rely upon fails to produce our products and product candidates in the amounts we require on a timely basis, or fails to comply with stringent regulations applicable to pharmaceutical drug manufacturers, we may face delays in the commercialization of Amelior, or may be unable to meet demand for**

**the product supplied by the manufacturer and may lose potential revenues.**

We do not manufacture any of our products or product candidates, and we do not currently plan to develop any capacity to do so. Our dependence upon third parties for the manufacture of products could adversely affect our profit margins or our ability to develop and deliver products on a timely and competitive basis. If for any reason we are unable to obtain or retain third-party manufacturers on commercially acceptable terms, we may not be able to sell our products as planned. Furthermore, if we encounter delays or difficulties with contract manufacturers in producing our products, the distribution, marketing and subsequent sales of these products could be adversely affected. In either event, we may

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### **Risk factors**

choose to or need to seek an alternative source of supply for, or abandon, a product line or sell a product line on unsatisfactory terms. Our agreement with Bioniche Teoranta, or Bioniche, for the exclusive manufacture and supply of Acetadote requires that we obtain Acetadote only from Bioniche, even if we could obtain Acetadote from another supplier on terms more favorable than the terms of our agreement with Bioniche.

We have minimum purchase obligations under our Acetadote supply agreement with Bioniche and our Kristalose supply agreement with Inalco S.p.A. and Inalco Biochemicals, Inc., or collectively Inalco. If our purchase obligations exceed demand for these products, we may be forced to either breach our contract with that manufacturer or purchase a supply of the product that we may be unable to sell. Our contract with Bioniche extends until 2011, and our contract with Inalco extends until 2021.

On February 2, 2007, Mayne Pharma Pty. Ltd., our exclusive manufacturer of Amelior, was acquired by Hospira, Inc. If Hospira encounters integration problems or if we have disagreements with Hospira, with whom we have not collaborated in the past, our supply of Amelior could be interrupted.

Amelior is manufactured at a single facility in Australia. Acetadote is manufactured at a single facility in Ireland, and the active pharmaceutical ingredient for Kristalose is manufactured at a single facility in Italy. If any one of these facilities is damaged or destroyed, or if local conditions result in a work stoppage, we could suffer a delay or suspension of clinical trials, in the case of Amelior, or an inability to meet demand, in the case of our marketed products. Kristalose is manufactured through a complex process involving trade secrets of the manufacturer; therefore, it would be particularly difficult to find a new manufacturer of Kristalose on an expedited basis. As a result of these factors, our ability to manufacture Kristalose may be substantially impaired if the manufacturer is unable or unwilling to supply sufficient quantities of the product.

In addition, all manufacturers of our products and product candidates must comply with current good manufacturing practices, referred to as cGMP, enforced by the FDA through its facilities inspection program. These requirements include quality control, quality assurance and the maintenance of records and documentation. Manufacturers of our product candidates may be unable to comply with cGMP requirements and with other FDA, state and foreign regulatory requirements. We have no control over our manufacturers' compliance with these regulations and standards. If our third-party manufacturers do not comply with these requirements, we could be subject to:

- Ø fines and civil penalties;
- Ø suspension of production or distribution;
- Ø suspension or delay in product approval;
- Ø product seizure or recall; and
- Ø withdrawal of product approval.

**We are dependent on a variety of other third parties. If these third parties fail to perform as we expect, our operations could be disrupted and our financial results could suffer.**

We have a relatively small internal infrastructure. We rely on a variety of third parties, other than our third-party manufacturers, to help us operate our business. Other third parties on which we rely include:

- Ø Cardinal Health Specialty Pharmaceutical Services, a logistics and fulfillment company and business unit of Cardinal, which warehouses and ships both Kristalose and Acetadote;
- Ø Inventiv Commercial Services, LLC, which provides a field sales force that is the primary selling team for Kristalose; and

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**Risk factors**

Ø Vanderbilt University and the Tennessee Technology Development Corporation, co-owners with us of Cumberland Emerging Technologies, Inc., or CET, and the universities that collaborate with us in connection with CET's research and development programs.

If these third parties do not continue to provide services to us, or collaborate with us, we might not be able to obtain others who can serve these functions. This could disrupt our business operations, delay completion of clinical trials, regulatory approval and market launch of Amelior or any future product candidate, increase our operating expenses and otherwise adversely affect our operating results.

**If we are unable to maintain and build an effective sales and marketing infrastructure, we will not be able to commercialize and grow our products and product candidates successfully.**

Historically, we have relied on Cardinal, to provide sales representatives to promote our products. Recently, we exercised an option under our agreement with Cardinal to convert the hospital sales force for our products to Cumberland employees. This conversion was completed in January 2007. Our ability to maintain and increase our revenues and profitability, particularly in the near term, will depend on our ability to address any issues or inefficiencies that arise from transitioning this sales force from Cardinal employees to our employees.

As we grow, we may not be able to secure sales personnel or organizations that are adequate in number or expertise to successfully market and sell our products. This risk would be accentuated if we acquire products in areas outside of acute care/emergency medicine and gastroenterology, since our sales forces specialize in these areas. If we are unable to expand our sales and marketing capability or any other capabilities necessary to commercialize our products and product candidates, we will need to contract with third parties to market and sell our products. If we are unable to establish and maintain adequate sales and marketing capabilities:

Ø we may not be able to increase our product revenue;

Ø we may generate increased expenses; and

Ø we may not continue to be profitable.

**Competitive pressures could reduce our revenues and profits.**

The pharmaceutical industry is intensely competitive. Our strategy is to target differentiated products in specialized markets. However, this strategy does not relieve us from competitive pressures, and can entail distinct competitive risks. For example, a new entrant into a smaller market could have a disproportionately large impact on others in the market. In addition, certain of our competitors do not aggressively promote their products in our markets. A relatively modest increase in promotional activity in our markets could result in large shifts in market share, adversely affecting us.

Kristalose competes in the U.S. with several other branded prescription laxative products, including Amitiza<sup>®</sup> and Zelnorm<sup>®</sup>. Amitiza<sup>®</sup> is marketed by Sucampo Pharmaceuticals Inc. and Takeda Pharmaceutical Company Limited. Zelnorm<sup>®</sup> is a product of Novartis Pharma AG, which withdrew Zelnorm<sup>®</sup> from the U.S. market in March 2007 based on a recent finding of an increased risk of serious cardiovascular adverse events associated with the use of the drug. Acetadote competes domestically with several orally administered prescription products for treating acetaminophen



overdose. We are aware of products under development, including an intravenous acetaminophen product being developed by Cadence Pharmaceuticals Inc., which could compete with Amelior. We have limited patent protection against direct competition.

Our competitors may sell or develop drugs that are more effective and useful and less costly than ours, and they may be more successful in manufacturing and marketing their products. Many of our

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### **Risk factors**

competitors have significantly greater financial and marketing resources than we do. Additional competitors may enter our markets.

The pharmaceutical industry is characterized by constant and significant investment in new product development, which can result in rapid technological change. The introduction of new products could substantially reduce our market share or render our products obsolete. The selling prices of pharmaceutical products tend to decline as competition increases, through new product introduction or otherwise, which could reduce our revenues and profitability.

Governmental and private health care payors have recently emphasized substitution of branded pharmaceuticals with less expensive generic equivalents. An increase in the sales of generic pharmaceutical products could result in a decrease in our revenues. While there are no generic equivalents competing with Amelior, Acetadote or Kristalose at this time, in the future we could face generic competition.

**Our future growth depends on our ability to identify and acquire rights to products. If we do not successfully identify and acquire rights to products and successfully integrate them into our operations, our growth opportunities would be limited.**

We acquired rights to Amelior, Acetadote and Kristalose. Our business strategy is to continue to acquire rights to FDA-approved products as well as pharmaceutical product candidates in the late stages of development. We do not plan to conduct basic research or pre-clinical product development, except to the extent of our investment in CET. We have limited resources to acquire third-party products, businesses and technologies and integrate them into our current infrastructure. Many acquisition opportunities involve competition among several potential purchasers including large multi-national pharmaceutical companies and other competitors that have access to greater financial resources than we do.

With future acquisitions, we may face financial and operational risks and uncertainties, including:

- Ø not realizing the expected economic return or other benefits from an acquisition;
- Ø incurring higher than expected acquisition and integration costs;
- Ø assuming or otherwise being exposed to unknown liabilities;
- Ø developing or integrating new products that could disrupt our business and divert our management's time and attention;
- Ø not being able to preserve key suppliers or distributors of any acquired products;
- Ø incurring substantial debt or issue dilutive securities to pay for acquisitions; and
- Ø acquiring products that could substantially increase our amortization expenses.

We are not precluded from engaging in a large acquisition in the future, including an acquisition that entails the investment of substantially all of the proceeds from this offering. While large acquisitions potentially present large

opportunities, they also could magnify the risks identified above. As of the date of this prospectus, we have no commitments or agreements regarding any potential acquisitions.

We may not be able to engage in future product acquisitions, and those we do complete may not be beneficial to us in the long term.

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**Continued consolidation of distributor networks in the pharmaceutical industry as well as increases in retailer concentration may limit our ability to profitably sell our products.**

We sell most of our products to large pharmaceutical wholesalers, who in turn sell to, thereby supplying, hospitals and retail pharmacies. The distribution network for pharmaceutical products has become increasingly consolidated in recent years. Today, three large wholesalers control most of the market. Further consolidation among, or any financial difficulties of, pharmaceutical wholesalers or retailers could result in the combination or elimination of warehouses, which could cause product returns to us. In addition, further consolidation or financial difficulties could also cause our customers to reduce the amounts of our products that they purchase, which would materially and adversely affect our business, financial condition and results of operations.

**If governmental or third-party payors do not provide adequate reimbursement for our products, our revenue and prospects for continued profitability will be limited.**

Our financial success depends, in part, on the availability of adequate reimbursement from third-party healthcare payors. Such third-party payors include governmental health programs such as Medicare and Medicaid, managed care providers and private health insurers. Third-party payors are increasingly challenging the pricing of medical products and services, while governments continue to propose and pass legislation designed to reduce the cost of healthcare. Adoption of such legislation could further limit reimbursement for pharmaceuticals. For example, in December 2003, Congress enacted a limited prescription drug benefit for Medicare beneficiaries in the Medicare Prescription Drug, Improvement, and Modernization Act of 2003. Under this program, drug prices for certain prescription drugs are negotiated by drug plans, with the goal to lower costs for Medicare beneficiaries. Future cost control initiatives could decrease the price that we would receive for any products, which would limit our revenue and profitability. In addition, legislation and regulations affecting the pricing of pharmaceuticals might change.

Reimbursement practices of third-party payors might preclude us from achieving market acceptance for our products or maintaining price levels sufficient to realize an appropriate return on our investment in product acquisition and development. If we cannot obtain adequate reimbursement levels, our business, financial condition and results of operations would be materially and adversely affected.

**Formulary practices of third-party payors could adversely affect our competitive position.**

Many managed health care organizations are now controlling the pharmaceutical products listed on their formulary lists. The benefit of having products listed on these formulary lists creates competition among pharmaceutical companies which, in turn, has created a trend of downward pricing pressure in our industry. In addition, many managed care organizations are pursuing various ways to reduce pharmaceutical costs and are considering formulary contracts primarily with those pharmaceutical companies that can offer a full line of products for a given therapy sector or disease state. Our products might not be included on the formulary lists of managed care organizations, and downward pricing pressure in our industry generally could negatively impact our operations.

**Our CET joint initiative may not result in our gaining access to commercially viable products.**

Our CET joint initiative with Vanderbilt University and Tennessee Technology Development Corporation is designed to help us investigate, in a cost-effective manner, early-stage products and



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technologies. However, we may never gain access to commercially viable products from CET for a variety of reasons, including:

- Ø CET investigates early-stage products, which have the greatest risk of failure prior to FDA approval and commercialization;
- Ø In some programs, we do not have pre-set rights to product candidates developed by CET. We would need to agree with CET and its collaborators on the terms of any product license to, or acquisition by, us;
- Ø We rely principally on government grants to fund CET's research and development programs. If these grants were no longer available, we or our co-owners might be unable or unwilling to fund CET operations at current levels or at all;
- Ø We may become involved in disputes with our co-owners regarding CET policy or operations, such as how best to deploy CET assets or which product opportunities to pursue. Disagreement could disrupt or halt product development; and
- Ø CET may disagree with one of the various universities with which CET is collaborating on research. A disagreement could disrupt or halt product development.

### **The size of our organization and our activities are growing, and we may experience difficulties in managing growth.**

As of June 20, 2007, we had 35 full-time employees, which includes the sales staff we recently acquired from Cardinal, now comprised of 15 representatives. We may need to continue to expand our managerial, operational, financial and other resources in order to increase our marketing efforts with regard to our currently marketed products, continue our business development and product development activities and commercialize our product candidates. We have experienced, and may continue to experience, rapid growth in the scope of our operations in connection with the commercial launch of new products. Our financial performance will depend, in part, on our ability to manage any such growth effectively. Our management, personnel, systems and facilities currently in place may not be adequate to support this future growth.

### **We depend on our key personnel, the loss of whom would adversely affect our operations. If we fail to attract and retain the talent required for our business, our business will be materially harmed.**

We are a relatively small company, and we depend to a great extent on principal members of our management and scientific staff. If we lose the services of any key personnel, in particular, A.J. Kazimi, our Chief Executive Officer, it could have a material adverse effect on our business prospects. We currently have a key man life insurance policy covering the life of Mr. Kazimi. We have entered into agreements with each of our employees that contain restrictive covenants relating to non-competition and non-solicitation of our customers and suppliers for one year after termination of employment. Nevertheless, each of our officers and key employees may terminate his or her employment at any time without notice and without cause or good reason, and so as a practical matter these agreements do not guarantee the continued service of these employees. Our success depends on our ability to attract and retain highly qualified scientific, technical and managerial personnel and research partners. Competition among pharmaceutical companies for qualified employees is intense, and we may not be able to retain existing personnel or

attract and retain qualified staff in the future. If we experience difficulties in hiring and retaining personnel in key positions, we could suffer from delays in product development, loss of customers and sales and diversion of management resources, which could adversely affect operating results.

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**We face potential product liability exposure, and if successful claims are brought against us, we may incur substantial liability for a product or product candidate and may have to limit its commercialization.**

We face an inherent risk of product liability lawsuits related to the testing of our product candidates and the commercial sale of our products. An individual may bring a liability claim against us if one of our product candidates or products causes, or appears to have caused, an injury. If we cannot successfully defend ourselves against the product liability claim, we may incur substantial liabilities. Liability claims may result in:

- Ø decreased demand for our products;
- Ø injury to our reputation;
- Ø withdrawal of clinical trial participants;
- Ø significant litigation costs;
- Ø substantial monetary awards to or costly settlement with patients;
- Ø product recalls;
- Ø loss of revenue; and
- Ø the inability to commercialize our product candidates.

We are highly dependent upon medical and patient perceptions of us and the safety and quality of our products. We could be adversely affected if we or our products are subject to negative publicity. We could also be adversely affected if any of our products or any similar products sold by other companies prove to be, or are asserted to be, harmful to patients. Also, because of our dependence upon medical and patient perceptions, any adverse publicity associated with illness or other adverse effects resulting from the use or misuse of our products or any similar products sold by other companies could have a material adverse impact on our results of operations.

We have product liability insurance that covers our clinical trials and the marketing and sale of our products up to a \$10 million annual aggregate limit, subject to specified deductibles. Our current or future insurance coverage may prove insufficient to cover any liability claims brought against us. Because of the increasing costs of insurance coverage, we may not be able to maintain insurance coverage at a reasonable cost or obtain insurance coverage that will be adequate to satisfy any liability that may arise.

**We have never paid dividends on our capital stock, and we do not anticipate paying any cash dividends in the foreseeable future.**

We have never paid cash dividends on our capital stock. We do not anticipate paying cash dividends to our shareholders in the foreseeable future. The availability of funds for distributions to shareholders will depend substantially on our earnings. Even if we become able to pay dividends in the future, we expect that we would retain such earnings to enhance capital and/or reduce long-term debt.



## **RISKS RELATING TO GOVERNMENT REGULATION**

**We are subject to stringent government regulation. All of our products face regulatory challenges.**

Virtually all aspects of our business activities are regulated by government agencies. The manufacturing, processing, formulation, packaging, labeling, distribution, promotion and sampling, and advertising of our products, and disposal of waste products arising from such activities, are subject to governmental

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regulation. These activities are regulated by one or more of the FDA, the Federal Trade Commission, or the FTC, the Consumer Product Safety Commission, the U.S. Department of Agriculture and the U.S. Environmental Protection Agency, or the EPA, as well as by comparable agencies in foreign countries. These activities are also regulated by various agencies of the states and localities in which our products are sold. For more information, see Business Government Regulation.

Like all pharmaceutical manufacturers, we are subject to regulation by the FDA under the authority of the Federal Food, Drug and Cosmetic Act, or the FDC Act. All new drugs must be the subject of an FDA-approved new drug application, or NDA, before they may be marketed in the U.S. The FDA has the authority to withdraw existing NDA approvals and to review the regulatory status of products marketed under the enforcement policy. The FDA may require an approved NDA for any drug product marketed under the enforcement policy if new information reveals questions about the drug's safety and effectiveness. All drugs must be manufactured in conformity with cGMP, and drug products subject to an approved NDA must be manufactured, processed, packaged, held and labeled in accordance with information contained in the NDA. Since we rely on third parties to manufacture our products, cGMP requirements directly affect our third party manufacturers and indirectly affect us. The manufacturing facilities of our third-party manufacturers are continually subject to inspection by such governmental agencies, and manufacturing operations could be interrupted or halted in any such facilities if such inspections prove unsatisfactory. Our third-party manufacturers are subject to periodic inspection by the FDA to assure such compliance.

Pharmaceutical products must be distributed, sampled and promoted in accordance with FDA requirements. The FDA also regulates the advertising of prescription drugs. The FDA has the authority to request post-approval commitments that can be time-consuming and expensive to comply with.

Under the FDC Act, the federal government has extensive enforcement powers over the activities of pharmaceutical manufacturers to ensure compliance with FDA regulations. Those powers include, but are not limited to, the authority to initiate court action to seize unapproved or non-complying products, to enjoin non-complying activities, to halt manufacturing operations that are not in compliance with cGMP, and to seek civil monetary and criminal penalties. The initiation of any of these enforcement activities, including the restriction or prohibition on sales of our products, could materially adversely affect our business, financial condition and results of operations.

Any change in the FDA's enforcement policy could have a material adverse effect on our business, financial condition and results of operations.

We cannot determine what effect changes in regulations or statutes or legal interpretation, when and if promulgated or enacted, may have on our business in the future. Such changes could, among other things, require:

- Ø changes to manufacturing methods;
- Ø expanded or different labeling;
- Ø recall, replacement or discontinuance of certain products;
- Ø additional record keeping; and
- Ø expanded documentation of the properties of certain products and scientific substantiation.

Such changes, or new legislation, could have a material adverse effect on our business, financial condition and results of operations.

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**RISKS RELATING TO INTELLECTUAL PROPERTY**

**Our strategy to secure and extend marketing exclusivity or patent rights may provide only limited protection from competition.**

We seek to secure and extend marketing exclusivity for our products through a variety of means, including FDA exclusivity and patent rights. Acetadote has been designated as an orphan drug and is indicated to prevent or lessen hepatic (liver) injury when administered intravenously within eight to ten hours after ingesting quantities of acetaminophen that are potentially toxic to the liver. The FDA is authorized to grant orphan drug designation to drugs intended to treat a rare disease or condition. If a product that has orphan drug designation subsequently receives the first FDA approval for the disease for which it has such designation, the product is entitled to orphan drug exclusivity, which means that the FDA may not approve any other applications to market another drug using the same active ingredients for the same indication, except in very limited circumstances, for seven years. To this extent, Acetadote is protected until 2011 against competition from another drug using the same active ingredient to treat the same indication. Orphan drug marketing exclusivity does not, however, protect a drug from competition by a different drug marketed for the same indications.

We do not have composition of matter or use patents for our marketed products. We do have a U.S. patent, No. 6,727,286, and some related international patents, which are directed to ibuprofen solution formulations, methods of making the same, and methods of using the same, and which are related to our formulation and manufacture of Amelior. We have applied for additional U.S. and international patent protection for our invention related to ibuprofen solution formulations, methods of making the same, and methods of using the same, but those applications may not result in issued patents. Additionally, the active ingredient in Amelior ibuprofen is in the public domain, and if a competitor were to develop a sufficiently distinct formulation, it could develop and seek FDA approval for an ibuprofen product that competes with Amelior. Following successful completion of our clinical studies, we also plan to seek three-year marketing exclusivity for Amelior.

Inalco manufactures Kristalose and owns two U.S. patents, Nos. 5,003,061 and 5,480,491, related to the manufacture of Kristalose. These patents are not directed to the composition or use of Kristalose and do not prevent a competitor from developing a formulation and developing and seeking FDA approval for a product that competes with Kristalose.

While we consider patent protection when evaluating product acquisition opportunities, any products we acquire in the future may not have significant patent protection. Neither the U.S. Patent and Trademark Office nor the courts have a consistent policy regarding the breadth of claims allowed or the degree of protection afforded under many pharmaceutical patents. Patent applications in the U.S. and many foreign jurisdictions are typically not published until 18 months following the filing date of the first related application, and in some cases not at all. In addition, publication of discoveries in scientific literature often lags significantly behind actual discoveries. Therefore, neither we nor our licensors can be certain that we or they were the first to make the inventions claimed in our issued patents or pending patent applications, or that we or they were the first to file for protection of the inventions set forth in these patent applications. In addition, changes in either patent laws or in interpretations of patent laws in the U.S. and other countries may diminish the value of our intellectual property or narrow the scope of our patent protection. Furthermore, our competitors may independently develop similar technologies or duplicate technology developed by us in a manner that does not infringe our patents or other intellectual property. As a result of these factors, our patent rights may not provide any commercially valuable protection from competing products.



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### **Risk factors**

#### **If we are unable to protect the confidentiality of our proprietary information and know-how, the value of our technology and products could be adversely affected.**

In addition to patents, we rely upon trade secrets, unpatented proprietary know-how and continuing technological innovation where we do not believe patent protection is appropriate or attainable. For example, the manufacturing process for Kristalose involves substantial trade secrets and proprietary know-how. We have entered into confidentiality agreements with certain key employees and consultants pursuant to which such employees and consultants must assign to us any inventions relating to our business if made by them while they are our employees, as well as certain confidentiality agreements relating to the acquisition of rights to products. Confidentiality agreements can be breached, though, and we might not have adequate remedies for any breach. Also, others could acquire or independently develop similar technology.

#### **We depend on our licensors for the maintenance and enforcement of our intellectual property and have limited, if any, control over the amount or timing of resources that our licensors devote on our behalf.**

When we license products, we often depend on our licensors to protect the proprietary rights covering those products. We have limited, if any, control over the amount or timing of resources that our licensors devote on our behalf or the priority they place on maintaining patent or other rights and prosecuting patent applications to our advantage. While any such licensor is expected to be under contractual obligations to us to diligently prosecute its patent applications and allow us the opportunity to consult, review and comment on patent office communications, we cannot be sure that it will perform as required. If a licensor does not perform and if we do not assume the maintenance of the licensed patents in sufficient time to make required payments or filings with the appropriate governmental agencies, we risk losing the benefit of all or some of those patent rights.

#### **If the use of our technology conflicts with the intellectual property rights of third parties, we may incur substantial liabilities, and we may be unable to commercialize products based on this technology in a profitable manner or at all.**

Third parties, including our competitors, could have or acquire patent rights that they could enforce against us. In addition, we may be subject to claims from others that we are misappropriating their trade secrets or confidential proprietary information. If our products conflict with the intellectual property rights of others, they could bring legal action against us or our licensors, licensees, manufacturers, customers or collaborators. If we were found to be infringing a patent or other intellectual property rights held by a third party, we could be forced to seek a license to use the patented or otherwise protected technology. We might not be able to obtain such a license on terms acceptable to us or at all. If an infringement or misappropriation legal action were to be brought against us or our licensors, we would incur substantial costs in defending the action. If such a dispute were to be resolved against us, we could be subject to significant damages, and the manufacturing or sale of one or more of our products could be enjoined.

#### **We may be involved in lawsuits to protect or enforce our patents or the patents of our collaborators or licensors, which could be expensive and time consuming.**

Competitors may infringe our patents or the patents of our collaborators or licensors. To counter infringement or unauthorized use, we may be required to file infringement claims, which can be expensive and time-consuming. In addition, in an infringement proceeding, a court may decide that a patent of ours is not valid or is unenforceable, or may refuse to stop the other party from using the technology at issue on the grounds that our patents do not cover the

technology in question. An adverse

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result in any litigation or defense proceeding could put one or more of our patents at risk of being invalidated or interpreted narrowly and could put our patent applications at risk of not issuing.

Interference proceedings brought by the U.S. Patent and Trademark Office may be necessary to determine the priority of inventions with respect to our patent applications or those of our collaborators or licensors. Litigation or interference proceedings may fail and, even if successful, may result in substantial costs and distract our management. We may not be able, alone or with our collaborators and licensors, to prevent misappropriation of our proprietary rights, particularly in countries where the laws may not protect such rights as fully as in the U.S.

Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, some of our confidential information could be disclosed during this type of litigation. In addition, there could be public announcements of the results of hearings, motions or other interim proceedings or developments. If securities analysts or investors perceive these results to be negative, it could have a substantial adverse effect on the price of our common stock.

### **If we breach any of the agreements under which we license rights to our products and product candidates from others, we could lose the ability to continue commercialization of our products and development and commercialization of our product candidates.**

We have exclusive licenses for the marketing and sale of certain products and may acquire additional licenses. Such licenses may terminate prior to expiration if we breach our obligations under the license agreement related to these pharmaceutical products. For example, the licenses may terminate if we fail to meet specified quality control standards, including cGMP with respect to the products, or commit a material breach of other terms and conditions of the licenses. Such early termination could have a material adverse effect on our business, financial condition and results of operations.

Our agreement with Inalco appoints us as the exclusive marketer, seller and distributor of Kristalose in the U.S. Either we or Inalco may terminate this agreement upon the breach of any material provision of the agreement if the breach is not cured within 45 days following written notice. If our agreement with Inalco were terminated, we would lose our right to continue commercialization of Kristalose in the U.S.

Under an agreement between us and Vanderbilt University, we have received certain clinical data to support our planned NDA submission for Amelior. Either we or Vanderbilt may terminate this agreement upon the breach of any material provision of the agreement if the breach is not cured within 45 days following written notice. If our agreement with Vanderbilt were terminated, we would lose our right to use the data to support our planned NDA submission, and this loss may hinder our ability to commercialize Amelior in accordance with our plans.

## **RISKS RELATED TO OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

### **We have identified material weaknesses and a significant deficiency in our internal controls that, if not properly corrected, could result in material misstatements in our financial statements.**

In connection with our fiscal year 2006 financial statement audit, we identified three material weaknesses, and an additional significant deficiency (not rising to the level of a material weakness), in our internal controls. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects our ability to initiate, authorize, record, process, or report external financial data reliably in accordance with U.S. generally accepted



accounting principles such that there is more than a remote likelihood that a misstatement of our annual or interim financial statements that is more than inconsequential will not be prevented or detected by our internal controls. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote

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likelihood that a material misstatement of our annual or interim financial statement will not be prevented or detected by our internal controls. We have undertaken a remediation plan designed to correct these issues.

We summarize below the nature of the material weaknesses referenced above as well as the related remediation steps that we are implementing or plan to implement:

- Ø *Non-Routine Transactions.* We did not maintain adequate policies and procedures related to our financial reporting in order to account for significant, non-routine transactions in accordance with U.S. generally accepted accounting principles. To remedy this material weakness, we are implementing a new policy requiring management to review quarterly the accounting treatment for all transactions and contracts entered into.
- Ø *Financial Statement Review Process.* We lack adequate personnel resources possessing sufficient expertise in U.S. generally accepted accounting principles to effectively perform a review of the annual financial statements. To remedy this material weakness, we intend to establish a new internal position that will be primarily responsible for SEC and other external reporting requirements. This position will report to the Vice President of Finance and Accounting.
- Ø *Taxes.* We do not have an adequate number of personnel with appropriate qualifications and training in accounting for income taxes to perform a sufficient review of the income tax provision. To remedy this material weakness, we are implementing new procedures that, among other things, require us to further review the work of our external tax provider and to increase communication and information-sharing between our external tax provider and us.

The significant deficiency relates to our policies and procedures for the review of our master listing of stock options granted. To remedy this significant deficiency, we are reviewing each transaction on our master listing against the relevant source documents and implementing new policies requiring quarterly review of the master listing by departments including our finance and accounting departments.

If we are not able to timely remedy the material weaknesses and significant deficiency described above, we may be unable to provide to our shareholders the required financial information in a timely and reliable manner, and we may misreport financial information, either of which could subject us to stockholder litigation and regulatory enforcement actions. This could materially and adversely impact our financial condition and the market value of our securities.

### **Our operating results are likely to fluctuate from period to period.**

We are a relatively new company seeking to capture significant growth. While our revenues and operating income have increased over time, we anticipate that there may be fluctuations in our future operating results. Potential causes of future fluctuations in our operating results may include:

- Ø new product launches, which could increase revenues but also increase sales and marketing expenses;
- Ø acquisition activity and other one-time charges (such as for inventory expiration);
- Ø increases in research and development expenses resulting from the acquisition of a product candidate that requires significant additional development;

Ø changes in the competitive, regulatory or reimbursement environment, which could drive down revenues or drive up sales and marketing or compliance costs; and

Ø unexpected product liability or intellectual property claims and lawsuits.

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### **Risk factors**

See also Management's discussion and analysis of financial condition and results of operations. Liquidity and capital resources. Fluctuation in operating results, particularly if not anticipated by investors and other members of the financial community, could add to volatility in our stock price.

#### **Our focus on acquisitions as a growth strategy has created a large amount of intangible assets whose amortization could negatively affect our results of operations.**

Our total assets include intangible assets related to our acquisitions. The value of these intangible assets represents the excess of the acquisition purchase price over the fair value of the separate assets we acquired. As of March 31, 2007, intangible assets relating to product and data acquisitions represented approximately 36.0% of our total assets. We may never realize the value of these assets. Generally accepted accounting principles require that we evaluate on a regular basis whether events and circumstances have occurred that indicate that all or a portion of the carrying amount of the asset may no longer be recoverable, in which case we would write down the value of the asset and take a corresponding charge to earnings. Any determination requiring the write-off of a significant portion of unamortized intangible assets would adversely affect our results of operations.

#### **We may need additional funding and may be unable to raise capital when needed, which could force us to delay, reduce or eliminate our product development or commercialization and marketing efforts.**

We may need to raise additional funds in order to meet the capital requirements of running our business and acquiring and developing new pharmaceutical products. If we require additional funding, we may seek to sell common stock or other equity or equity-linked securities, which could result in dilution to purchasers of common stock in this offering. We may also seek to raise capital through a debt financing, which would result in ongoing debt-service payments and increased interest expense. Any financings would also likely involve operational and financial restrictions being imposed on us. We might also seek to sell assets or rights in one or more commercial products or product development programs. Additional capital might not be available to us when we need it on acceptable terms or at all. If we are unable to raise additional capital when needed, we could be forced to scale back our operations to conserve cash.

#### **We have a relatively short history of profitability and may not be able to sustain or increase our net income levels.**

We were incorporated in 1999 and incurred operating losses until 2004. We recorded our first year of profitability in 2004 and have increased profitability in each of 2005 and 2006. As of March 31, 2007, however, we still had an accumulated deficit of (\$6.6) million, representing the amount by which our historical losses have exceeded our historical profits. We may not be able to maintain or improve our current levels of revenue or net income. In such event, investors are likely to lose confidence in our ability to grow, and our stock price would suffer.

### **RISKS RELATED TO THIS OFFERING AND AN INVESTMENT IN OUR STOCK**

#### **As a new investor, you will experience immediate and substantial dilution in the net tangible book value of your shares.**

The initial public offering price of our common stock in this offering is considerably more than the net tangible book value per share of our outstanding common stock. Investors purchasing shares of



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common stock in this offering will pay a price that substantially exceeds the value of our tangible assets after subtracting liabilities. As a result, investors in this offering will:

- Ø incur immediate dilution of \$     per share, based on an assumed initial public offering price of \$     per share;
- Ø contribute     % of the total amount invested to date to fund our company based on an assumed initial offering price to the public of \$     per share;
- Ø but will own only     % of the shares of common stock outstanding after the offering.

We may conduct substantial additional equity offerings or issue equity as consideration in an acquisition or otherwise. These future equity issuances, together with the exercise of outstanding options or warrants, could result in future dilution to investors.

### **The market price of our common stock may fluctuate substantially.**

The initial public offering price for the shares of our common stock sold in this offering has been determined by negotiation between the representatives of the underwriters and us. This price may not reflect the market price of our common stock following this offering. The price of our common stock may decline. In addition, the market price of our common stock is likely to be highly volatile and may fluctuate substantially.

The realization of any of the risks described in these Risk factors could have a dramatic and material adverse impact on the market price of our common stock. In addition, securities class action litigation has often been instituted against companies whose securities have experienced periods of volatility in market price. Any such securities litigation brought against us could result in substantial costs and a diversion of management's attention and resources, which could negatively impact our business, operating results and financial condition.

### **We will incur increased costs as a result of operating as a public company, and our management will be required to devote additional time to new compliance initiatives.**

We will incur increased costs as a result of operating as a public company, and our management will be required to devote additional time to new compliance initiatives. As a public company, we will incur legal, accounting and other expenses that we did not incur as a private company. In addition, the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, as well as rules subsequently implemented by the SEC and Nasdaq, have imposed various new requirements on public companies, including requiring establishment and maintenance of effective disclosure and financial controls and changes in corporate governance practices. These rules and regulations will increase our legal and financial compliance costs and will render some activities more time-consuming and costly.

The Sarbanes-Oxley Act will require, among other things, that we maintain effective internal controls for financial reporting and disclosure controls and procedures. In particular, we must perform system and process evaluation and testing of our internal controls over financial reporting to allow management and our independent registered public accounting firm to report on the effectiveness of our internal controls over financial reporting, beginning with our Annual Report on Form 10-K for the fiscal year ending December 31, 2008, as required by Section 404 of the Sarbanes-Oxley Act. Our testing, or the subsequent testing by our independent registered public accounting firm, may reveal deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses. As

described in a previous risk factor, we have identified certain deficiencies in the past. Our compliance with Section 404 will require that we incur substantial accounting expense and expend significant management efforts. Moreover, if we are not able to comply with the requirements of

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### **Risk factors**

Section 404 in a timely manner, or if we or our independent registered public accounting firm identifies deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses, the market price of our stock could decline and we could be subject to sanctions or investigations by Nasdaq, the SEC or other regulatory authorities, which would require additional financial and management resources.

#### **There may not be a viable public market for our common stock.**

Prior to this offering, there has been no public market for our common stock, and a regular trading market might not develop or continue after this offering. Moreover, the market price of our common stock might decline below the initial public offering price.

#### **We will have broad discretion in how we use the proceeds of this offering, and we may not use these proceeds effectively, which could affect our results of operations and cause our stock price to decline.**

We will have broad discretion over the use of proceeds from this offering. We expect that the net proceeds from this offering will be used to fund clinical trials for Amelior and other research, marketing and development activities, and to fund working capital, capital expenditures and other general corporate purposes. We may also use a portion of the net proceeds to acquire products. We have no present agreements with respect to any such product acquisitions. We will have considerable discretion in the application of the net proceeds, and you will not have the opportunity, as part of your investment decision, to assess whether the proceeds are being used appropriately. The net proceeds may be used for purposes that do not increase our operating results or market value. Until the net proceeds are used, they may be placed in investments that do not produce significant income or that lose value.

#### **Future sales of our common stock may depress our stock price.**

Sales of a substantial number of shares of our common stock in the public market after this offering or the perception that these sales may occur could cause the market price of our common stock to decline. In addition, the sale of these shares in the public market could impair our ability to raise capital through the sale of additional common or preferred stock. After this offering, we will have \_\_\_\_\_ shares of common stock outstanding. Of these shares, all shares sold in the offering, other than shares, if any, purchased by our affiliates, will be freely tradable.

#### **Some provisions of our second amended and restated charter, bylaws and Tennessee law may inhibit potential acquisition bids that you may consider favorable.**

Our corporate documents contain provisions that may enable our board of directors to resist a change in control of our company even if a change in control were to be considered favorable by you and other shareholders. These provisions include:

- Ø the authorization of undesignated preferred stock, the terms of which may be established and shares of which may be issued without shareholder approval;
- Ø advance notice procedures required for shareholders to nominate candidates for election as directors or to bring matters before an annual meeting of shareholders;
- Ø limitations on persons authorized to call a special meeting of shareholders;



Ø a staggered board of directors;

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**Risk factors**

Ø a requirement that vacancies in directorships are to be filled by a majority of the directors then in office and the number of directors is to be fixed by the board of directors; and

Ø no cumulative voting.

These and other provisions contained in our second amended and restated charter and bylaws could delay or discourage transactions involving an actual or potential change in control of us or our management, including transactions in which our shareholders might otherwise receive a premium for their shares over then current prices, and may limit the ability of shareholders to remove our current management or approve transactions that our shareholders may deem to be in their best interests and, therefore, could adversely affect the price of our common stock.

In addition, we are subject to control share acquisitions provisions and affiliated transaction provision of the Tennessee Business Corporation Act, the applications of which may have the effect of delaying or preventing a merger, takeover or other change of control of us and therefore could discourage attempts to acquire our company. For more information, see Description of capital stock Anti-takeover effects of Tennessee law and provisions of our charter and bylaws.

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Special note regarding forward-looking statements

Statements in this prospectus that are not historical factual statements are forward-looking statements. Forward-looking statements include, among other things, statements regarding our intent, belief or expectations, and can be identified by the use of terminology such as may, will, expect, believe, intend, plan, estimate, anticipate and other comparable terms or the negative thereof. In addition, we, through our senior management, from time to time make forward-looking oral and written public statements concerning our expected future operations and other developments. While forward-looking statements reflect our good-faith beliefs and best judgment based upon current information, they are not guarantees of future performance and are subject to known and unknown risks and uncertainties, including those mentioned in Risk factors, Management's discussion and analysis of financial condition and results of operations and elsewhere in this prospectus. Actual results may differ materially from the expectations contained in the forward-looking statements as a result of various factors. Such factors include, without limitation:

- Ø legislative, regulatory or other changes in the healthcare industry at the local, state or federal level which increase the costs of, or otherwise affect our operations;
- Ø changes in reimbursement available to us by government or private payers, including changes in Medicare and Medicaid payment levels and availability of third-party insurance coverage;
- Ø competition; and
- Ø changes in national or regional economic conditions, including changes in interest rates and availability and cost of capital to us.

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Use of proceeds

We estimate that the net proceeds to us from the sale of the \_\_\_\_\_ shares of common stock offered hereby will be approximately \$ \_\_\_\_\_ million, assuming an initial public offering price of \$ \_\_\_\_\_ and after deducting underwriting discounts and commissions and estimated offering expenses. If the underwriters exercise their over-allotment option in full, we estimate that our net proceeds will be approximately \$ \_\_\_\_\_ million. Each \$1.00 increase (decrease) in the assumed initial public offering price of \$ \_\_\_\_\_ per share would increase (decrease) the net proceeds to us from this offering by approximately \$ \_\_\_\_\_ million, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same. Depending on market conditions at the time of pricing of this offering and other considerations, we may sell fewer or more shares than the number set forth on the cover page of this prospectus.

We plan to use the net proceeds from this offering principally for acquisitions of product candidates, intellectual property rights or companies that complement our business. We actively seek out acquisitions and in the ordinary course engage in discussions with potential acquisition candidates. We do not currently have a letter of intent or definitive purchase agreement with any potential target. We may undertake one large acquisition, utilizing substantially all of the net proceeds from this offering, or we may engage in one or more smaller acquisitions. It is also possible that we do not identify and complete any acquisitions. Consequently, the amount of the net proceeds from this offering that we will ultimately use for acquisitions can not be accurately predicted at this time.

Subject to the foregoing, we currently expect to use our net proceeds from this offering as follows:

- Ø approximately \$4.0 million for continued clinical testing and product development of Amelior;
- Ø approximately \$12.0 million for expected commercial introduction of Amelior to the U.S. market;
- Ø approximately \$15.0 million for expansion of our hospital and field sales forces to a total of approximately 130 representatives and managers;
- Ø approximately \$1.0 million for product development by CET, our 86%-owned subsidiary; and
- Ø the remainder to fund working capital and for general corporate purposes.

The expected uses of net proceeds of this offering represent our current intentions based upon our present plans and business conditions. As of the date of this prospectus, we cannot specify with certainty all of the particular uses for the net proceeds to be received upon completion of this offering. Accordingly, our management will have broad discretion in the application of the net proceeds, and you will be relying on the judgment of our management regarding the application of the proceeds of this offering.

The amounts we actually expend for the above-specified purposes may vary depending on a number of factors, including the extent of our success in identifying and completing acquisitions, changes in our business strategy, the amount of our future revenues and expenses and our future cash flow. If our future revenues or cash flow are less than we currently anticipate, we may need to support our ongoing business operations with net proceeds from this offering that we would otherwise use to support acquisitions and other methods of growth.

Until we use the net proceeds from this offering for the above purposes, we intend to invest the funds in short-term, investment-grade, interest-bearing securities as directed by our investment policy. Our goals with respect to the investment of these net proceeds are capital preservation and liquidity so that such funds are readily available.



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Dividend policy

We have not declared or paid any dividends on our common stock and do not anticipate paying cash dividends on our common stock for the foreseeable future. We currently intend to retain any future earnings for use in the operation of our business and to fund future growth. The payment of any dividends by us on our common or preferred stock is limited by our loan agreement with Bank of America. Any future decision to declare and pay dividends will be at the sole discretion of our board of directors.

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## Capitalization

The following table sets forth our capitalization as of March 31, 2007:

Ø on an actual basis;

Ø on a pro forma basis to give effect to the conversion of all of our outstanding preferred stock into        shares of common stock; and

Ø on a pro forma as adjusted basis to give further effect to the sale of        shares of common stock that we are offering at an assumed initial public offering price of \$        per share, after deducting underwriting discounts and commissions and estimated offering expenses to be paid by us.

You should read the following table in conjunction with our consolidated financial statements and related notes and Management's discussion and analysis of financial condition and results of operations appearing elsewhere in this prospectus.

	<b>As of March 31, 2007</b>		
	<b>Actual</b>	<b>Pro Forma</b>	<b>Pro Forma as Adjusted</b>
	<b>(in thousands)</b>		
Cash and cash equivalents <sup>(1)</sup>	\$ 8,999	\$	\$
Long-term debt and long-term obligations (less current portion)	6,248		
Shareholders' equity:			
Preferred stock, no par value; 3,000,000 shares authorized, 855,495 shares issued and outstanding, actual; and        shares authorized, no shares issued or outstanding, pro forma and pro forma as adjusted <sup>(2)</sup>	2,743		
Common Stock, no par value; 10,000,000 shares authorized; 4,938,845 shares issued and outstanding, actual;        shares authorized,        shares issued and outstanding, pro forma; and        shares authorized,        shares issued and outstanding on a pro forma as adjusted basis <sup>(3)</sup>	16,101		
Accumulated deficit	(6,621)		
Total shareholders' equity <sup>(4)</sup>	12,223		
Total capitalization <sup>(1)</sup>	\$ 18,471	\$	\$

(1) Each \$1.00 increase or decrease in the assumed initial public offering price of \$        per share would increase or decrease, as applicable, the amount of cash and cash equivalents, additional paid-in capital, total shareholders

equity and total capitalization by approximately \$      million, assuming the number of shares offered by us, as set forth on the cover of this prospectus, remains the same and after deducting the estimated underwriting discounts and commissions payable by us.

(2) Upon the completion of this offering, the outstanding shares of preferred stock will convert into an aggregate of      shares of common stock.

(3) Excludes:

Ø      shares of common stock issuable upon exercise of outstanding options at a weighted average exercise price of \$      per share;

Ø      shares of common stock reserved for future issuance under our 2007 Long-Term Incentive Compensation Plan and our 2007 Directors      Plan; and

Ø      shares of common stock issuable upon the exercise of outstanding warrants at a weighted average exercise price of \$      per share.



**Table of Contents****Dilution**

Our net tangible book as of March 31, 2007 was \$2.6 million, or \$      per share. Net tangible book value per share represents the amount of our total tangible assets less total liabilities, divided by the total number of shares of common stock outstanding. Our pro forma net tangible book value as of March 31, 2007 was \$      million, or \$      per share of common stock. Pro forma net tangible book value per share gives effect to the conversion of all of our preferred stock into      shares of our common stock, which will occur upon completion of this offering.

After giving further effect to the sale by us of      shares of common stock in this offering at an assumed initial public offering price of \$      per share, after taking into account the automatic conversion of our preferred stock upon completion of this offering, and after deducting underwriting discounts and commissions and estimated offering expenses payable by us, our pro forma as adjusted net tangible book value as of March 31, 2007 would have been approximately \$      million, or approximately \$      per share. This amount represents an immediate increase in pro forma net tangible book value of \$      per share to our existing shareholders and an immediate dilution in pro forma net tangible book value of approximately \$      per share to new investors purchasing shares of common stock in this offering. We determine dilution by subtracting the pro forma as adjusted net tangible book value per share after this offering from the amount of cash that a new investor paid for a share of common stock.

The following table illustrates this dilution on a per share basis:

Assumed initial public offering price per share		\$
Net tangible book value per share as of March 31, 2007	\$	
Effect on net tangible book value per share on conversion of preferred stock into common stock		
Pro forma net tangible book value per share as of March 31, 2007		
Increase per share attributable to this offering		
Pro forma as adjusted net tangible book value per share after this offering		
Dilution per share to new investors		\$

A \$1.00 increase (decrease) in the assumed initial public offering price of \$      per share would increase (decrease) our pro forma as adjusted net tangible book value as of March 31, 2007 by approximately \$      million, the pro forma as adjusted net tangible book value per share after this offering by \$      and the dilution in pro forma as adjusted net tangible book value to new investors in this offering by \$      per share, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us.

**Table of Contents****Dilution**

The following table summarizes, as of March 31, 2007, the differences between the number of shares purchased from us, the total consideration paid to us and the average price per share that existing shareholders and new investors paid. The table gives effect to the conversion of all of our outstanding preferred stock into shares of common stock, which will occur upon completion of this offering. The calculation below is based on an assumed initial public offering price of \$ per share and before deducting underwriting discounts and commissions and estimated offering expenses that we must pay.

	Total Shares		Total Consideration		Average
	Number	%	Number	%	Price per Share
	Existing shareholders		%		%
New investors					
Total		100.0%		100.0%	

A \$1.00 increase (decrease) in the assumed initial public offering price of \$ per share would increase (decrease) total consideration paid to us by investors participating in this offering by approximately \$ million, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us.

The discussion and tables above assume no exercise of the underwriters over-allotment option. If the underwriters over-allotment option is exercised in full, the number of shares of common stock held by existing shareholders will be further reduced to , or % of the total number of shares of common stock to be outstanding after this offering, and the number of shares of common stock held by investors participating in this offering will be further increased to , or % of the total number of shares of common stock to be outstanding after this offering.

In addition, the above discussion and table assume no exercise of stock options after March 31, 2007. As of March 31, 2007, we had outstanding options to purchase a total of shares of common stock at a weighted average exercise price of \$ per share and we had reserved shares of common stock issuable upon the exercise of outstanding warrants at a weighted average exercise price of \$ per share. If all such options and warrants had been exercised as of March 31, 2007, pro forma as adjusted net tangible book value per share would have been \$ per share, and dilution to new investors would have been \$ per share.

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## Selected consolidated financial data

The selected consolidated financial data set forth below should be read in conjunction with the consolidated financial statements and related notes and Management's discussion and analysis of financial condition and results of operation and other financial information appearing elsewhere in this prospectus. The consolidated statement of operations data for the years ended December 31, 2004, 2005 and 2006 and consolidated balance sheet data as of December 31, 2005 and 2006 are derived from consolidated financial statements audited by KPMG LLP and are included elsewhere in this prospectus. The consolidated statements of operations data for the years ended December 31, 2002 and 2003 and the consolidated balance sheet data as of December 31, 2002, 2003 and 2004 have been derived from our audited consolidated financial statements that do not appear in this prospectus. The consolidated statements of operation data for the three months ended March 31, 2006 and 2007 and the consolidated balance sheet data as of March 31, 2007 have been derived from our unaudited financial statements which are included elsewhere in this prospectus. Our unaudited consolidated financials statements include, in the opinion of management, all adjustments, consisting of only normal reoccurring adjustments, necessary for a fair presentation of these statements. The historical results are not necessarily indicative of the results to be expected for any future periods.

Statement of operations data <sup>(1)</sup> :	2002	Years Ended December 31,				Three Months Ended March 31,	
		2003	2004	2005	2006	2006	2007
(in thousands, except per share data)							
Net revenues	\$ 2,086	\$ 2,943	\$ 12,032	\$ 10,690	\$ 17,815	\$ 1,388	\$ 5,907
Costs and expenses:							
Cost of products sold			816	533	2,399	27	571
Selling and marketing	2,100	2,726	6,802	5,647	7,349	1,326	2,417
Research and development	934	1,658	746	1,158	2,233	589	452
General and administrative	2,279	2,265	2,358	2,588	2,999	620	1,019
Amortization of product license rights					515		172
Other		5	6	13	96	29	25
Total costs and expenses	5,313	6,654	10,729	9,940	15,592	2,591	4,656
Gain on insurance recovery			266				
Operating income (loss)	(3,227)	(3,710)	1,569	750	2,224	(1,203)	1,251
Interest income	3	8	1	89	209	55	90
Interest (expense)	(73)	(765)	(1,012)	(63)	(722)	(69)	(192)
Other income (expense)	9	(2)		(6)	(3)		
Net income (loss) before minority interest and income taxes	(3,289)	(4,469)	558	770	1,708	(1,217)	1,149
Minority interest in net loss of consolidated subsidiary	7						
Income tax benefit (expense)				1,184	2,697		(410)

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Net income (loss)	\$ (3,282)	\$ (4,469)	\$ 558	\$ 1,954	\$ 4,404	(\$ 1,217)	\$ 739
Net income (loss) per share basic	\$ (0.80)	\$ (1.05)	\$ 0.12	\$ 0.41	\$ 0.90	(\$ 0.25)	\$ 0.15
Net income (loss) per share diluted	\$ (0.80)	\$ (1.05)	\$ 0.07	\$ 0.24	\$ 0.54	(\$ 0.25)	\$ 0.09
Weighted average shares outstanding basic	4,116	4,261	4,541	4,748	4,899	4,895	4,935
Weighted average shares outstanding diluted	4,116	4,261	7,741	8,153	8,227	8,225	8,310

(1) The sum of the individual amounts may not agree due to rounding.

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<b>Balance sheet data:</b>	<b>As of December 31,</b>					<b>As of</b>
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>March 31, 2007</b>
	<b>(in thousands)</b>					
Cash and cash equivalents	\$ 1,790	\$ 771	\$ 516	\$ 5,536	\$ 6,255	\$ 8,999
Working capital	(485)	(3,110)	262	5,640	3,945	4,431
Total assets	1,946	2,083	4,507	10,173	26,481	26,854
Total long-term debt and other long-term obligations (including current portion)	2,554	3,108	2,436	2,398	10,543	9,947
Preferred stock	2,743	2,743	2,743	2,743	2,743	2,743
Accumulated deficit	(9,808)	(14,277)	(13,719)	(11,764)	(7,360)	(6,621)
Total shareholders' equity (deficit)	(1,762)	(3,433)	(22)	6,234	11,126	12,223

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Management's discussion and analysis of financial condition and results of operations

*The following discussion and analysis of our financial position and results of operations should be read together with our audited consolidated financial statements and related notes appearing elsewhere in this prospectus. This discussion and analysis may contain forward-looking statements that involve risks and uncertainties. You should review the "Risk factors" section of this prospectus for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements described in the following discussion and analysis.*

**OVERVIEW**

We are a specialty pharmaceutical company focused on the acquisition, development and commercialization of branded, prescription products. We are building our product portfolio primarily by acquiring rights to FDA-approved and late-stage development products and marketing them to specialty physician segments. Our primary target markets are hospital acute care and gastroenterology. Our current portfolio consists of two marketed products and one late-stage development product nearing completion of Phase III clinical trials.

We pursued the development of Acetadote for the treatment of acetaminophen poisoning and acquired rights to clinical data to support its approval. Approval of the product was obtained in January 2004 and we began to market Acetadote in the second quarter of 2004 and launched the product with a dedicated hospital sales force. In March 2006, we received approval from the FDA for the use of Acetadote in pediatric patients.

We gained access to marketed gastroenterology products by negotiating co-promotion agreements with the original developers of these products. These agreements allowed us to enter the gastroenterology market with minimal up-front costs and limited ongoing operating risk. In 2005, we made a strategic decision to de-emphasize our reliance on co-promotion agreements as a primary growth driver. In April 2006, we acquired exclusive commercial rights in the U.S. to Kristalose, a gastroenterology product we had previously co-promoted under an arrangement with Bertek Pharmaceuticals Inc., a subsidiary of Mylan Laboratories Inc. In October 2006, we re-launched Kristalose under the Cumberland brand with a dedicated field sales force targeting gastroenterologists and other high prescribers of laxative products.

Our research and development expenses have grown consistently because of our program to develop Amelior. We expect research and development expenses to increase in 2007 as we continue our clinical work related to Amelior. We plan to complete the Amelior clinical work in early 2008.

We have funded our operations with private equity capital of approximately \$14 million during the past six years. We have supplemented this equity funding by re-investing our profits and utilizing our credit facilities in order to support our operations.

Prior to 2007, our sales forces were contracted to us by a third party. In January 2007, we brought the hospital sales force in-house via our newly-formed, wholly-owned subsidiary, Cumberland Pharma Sales Corp. We continue to outsource the dedicated gastroenterology sales force. All expenses associated with the sales forces are included in selling and marketing expense.

In 2000, we formed CET with Vanderbilt University and Tennessee Technology Development Corporation to identify early-stage drug development activities. CET partners with universities and other research organizations to advance promising, early-stage product candidates through the development process and on to commercialization.



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**Management's discussion and analysis of financial condition and results of operations**

Our operating results have fluctuated in the past and are likely to fluctuate in the future. These fluctuations can result from competitive factors, new product acquisitions or introduction, the nature, scope and result of our research and development programs, pursuit of our growth strategy and other factors. As a result of these fluctuations, our historical financial results are not necessarily indicative of future results.

We were incorporated in 1999 and have been headquartered in Nashville, Tennessee since inception.

**CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGMENTS AND ESTIMATES**

**Accounting Estimates and Judgments**

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

**Revenue Recognition**

We recognize revenue in accordance with the SEC's Staff Accounting Bulletin No. 101, *Revenue Recognition in Financial Statements*, as amended by Staff Accounting Bulletin No. 104 (together, SAB 101), and Statement of Financial Accounting Standards No. 48, *Revenue Recognition When Right of Return Exists* (SFAS 48).

Our revenue is derived primarily from the product sales of Acetadote and Kristalose. Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed and determinable and collectability is probable. Delivery is considered to have occurred upon either shipment of the product or arrival at its destination based on the shipping terms of the transaction. When these conditions are satisfied, we recognize gross product revenue, which is the price we charge generally to our wholesalers for a particular product.

Our net product revenue reflects the reduction of gross product revenue at the time of initial sales recognition for estimated accounts receivable allowances for chargebacks, discounts and damaged product as well as provisions for sales related accruals of rebates, product returns and administrative fees for product promotion and fee for services. Our financial statements reflect accounts receivable allowances of \$184,000, \$299,000 and \$223,000 as of December 31, 2005 and 2006 and March 31, 2007, respectively, for chargebacks, discounts and allowances for product damaged in shipment. We had accrued liabilities of \$83,000, \$743,000 and \$626,000 as of December 31, 2005 and 2006 and March 31, 2007, respectively, for rebates, product returns and administrative fees.

The allowances for chargebacks, discounts, and damaged products and sales related accruals for rebates and product returns are determined on a product-by-product analysis and are established by management as our best estimate at the time of sale based on each product's historical experience, adjusted to reflect known changes in the factors that impact such allowances and accruals. Additionally, these allowances and accruals are established based on the contractual



terms with customers; analysis of historical levels of discounts, returns, chargebacks and rebates; communication with customers, and

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### **Management's discussion and analysis of financial condition and results of operations**

purchased information about the rate of prescriptions being written and the level of inventory remaining in the distribution channel, if known; as well as expectations about the market for each product, including any anticipated introduction of competitive products.

The allowances for chargebacks and accruals for rebates and product returns are the most significant estimates used in the recognition of our revenue from product sales. Of the accounts receivable allowances and our sales related accruals, our accrual for rebates represents the majority of the balance. Sales related accrued liabilities totaled \$83,000, \$743,000 and \$626,000 as of December 31, 2005, 2006 and March 31, 2007, respectively. Of these amounts, our estimated liability for rebates represented \$0, \$598,000 and \$419,000, respectively. If the actual amount of cash discounts taken, chargebacks, rebates and product returns differ from the amounts estimated by management, material difference may result from the amount of our revenue recognized from product sales. A change in our rebate estimate of one percentage point would have had an impact on net sales of approximately \$72,000 and \$23,000 for the year ended December 31, 2006 and the three-month period ended March 31, 2007, respectively. With respect to product that could potentially be returned for expiration as of December 31, 2006 as well as of March 31, 2007, we have calculated an estimated exposure of approximately \$64,000. Our product returns for expired product are not material and are not tracked against specific periods. Any expired product return would be from a prior period, given the shelf-life of the products.

From January 2006 through part of April 2006, we recorded contract sales revenue which was based on co-promotion agreements primarily with Bertek Pharmaceuticals Inc., for the sales of Kristalose. Co-promotion fees were calculated based on a percent of gross sales or similar calculation. Contract sales revenue is included in net revenues.

In 2004 and 2005, we allowed customers to purchase additional product prior to a scheduled price increase. Revenue for shipments of these purchases was recognized in accordance with our stated revenue recognition policy. As a general rule, effective January 1, 2006, we no longer offer these or any other type of incentive purchases to our customers. We occasionally make an exception to this policy, when we offer odd-lot quantities at a slightly reduced price or when a customer opens a new facility and requests special terms on their initial purchase. To date, we believe these types of transactions have not been material. Moreover, when we offer special terms, we review the transaction against our revenue recognition policy for proper treatment. If we determine such transactions become material, we will disclose the impact in the notes to our financial statements.

While we do not have regular access to our customers' inventory levels, we review each order from all of our customers. To the extent that an order reflects more than a normal purchasing pattern, management discusses the order with the customer prior to agreeing to process the order.

Other income, which is included in net revenues, includes rental and grant income. Rental income and grant income were three percent of net revenues in 2006.

### **Income Taxes**

We provide for deferred taxes using the asset and liability approach. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to operating loss and tax credit carry-forwards and differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Our principal differences are related to the timing of deductibility of certain items such as depreciation, amortization and expense for options issued to non-employees. Deferred tax assets and liabilities are measured using management's estimate of tax rates expected to apply to taxable income in the years in which management believes

those temporary

## **Table of Contents**

### **Management's discussion and analysis of financial condition and results of operations**

differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. In order to fully utilize the deferred tax asset of \$4.0 million as of December 31, 2006, we will need to generate future taxable income of approximately \$11.8 million prior to the expiration of the net operating loss carry-forwards in 2025.

### **Stock-Based Compensation**

We determine our share value on a contemporaneous basis when we issue shares of common stock and options to purchase shares of our common stock. Our board of directors establishes a share value of the common stock based on a recommendation by management and its assessment of several factors, including:

- Ø the fact that, prior to this offering, our common stock has not traded on a public market;
- Ø reports by management of arms length negotiations with third parties who accept our common stock as consideration for services rendered;
- Ø our performance and the status of our research and product development efforts;
- Ø review of third-party valuation reports secured from time to time by management; and
- Ø the board's consideration of the timing of a liquidity event (such as an initial public offering, merger or sale of our company), given our board's consideration of existing market conditions.

In preparing its recommendation for our board, our management analyzes our revenue and expense projections, along with financial assumptions (including anticipation of future events). Management then calculates a range of value based on various measurement models (such as EBITDA valuation, earnings valuation, and revenue valuation). Periodically, we also involve an independent third party to perform a valuation analysis of our company to assist management in preparing its analysis for board review.

Prior to January 1, 2006 we applied the intrinsic-value-based method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock issued to Employees*, and related interpretations including FIN No. 44, *Accounting for Certain Transactions involving Stock Compensation an interpretation of APB Opinion No. 25*, to account for our stock options issued under the 1999 Stock Option Plan. Under this method, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. Statement of Financial Accounting Standards, or SFAS, No. 123, *Accounting for Stock-Based Compensation* and Financial Accounting Standards Boards, or FASB No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure, an amendment of FASB Statement No. 123*, established accounting and disclosure requirements using a fair-value-based method of accounting for stock-based employee compensation plans. As permitted by then-existing accounting standards, we elected to continue to apply the

intrinsic-value-based method of accounting described above, and adopted only the disclosure requirements of SFAS No. 123, as amended.

Effective January 1, 2006, we adopted SFAS, No. 123(R), Share-Based Payment, which revises SFAS No. 123, *Accounting for Stock-Based Compensation* and supersedes Accounting Principles Board, or APB, Opinion No. 25, *Accounting for Stock Issued to Employees*. SFAS 123(R) requires that share-

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based payment transactions with employees be recognized in the financial statements based on their fair value and recognized as compensation expense over the vesting period. We adopted SFAS 123(R) effective January 1, 2006, prospectively for new equity awards issued subsequent to December 31, 2005.

Information on employee and non-employee stock options granted in 2006 and for the three months ended March 31, 2007 is summarized as follows:

<b>Grants made during quarter ended</b>	<b>Number of Stock Options Granted</b>	<b>Weighted Average Exercise Price</b>	<b>Average Intrinsic Value per Share</b>	<b>Weighted Average Fair Value of Option (per Share)</b>
March 31, 2006	12,000	\$18.00	\$4.00	\$8.36
June 30, 2006	24,300	\$18.74	\$3.26	\$9.90
September 30, 2006	9,075	\$18.00	\$4.00	\$11.16
December 31, 2006	2,600	\$18.00	\$4.00	\$11.01
March 31, 2007	45,077	\$22.00	\$0.00	\$14.41

Under SFAS No. 123(R), we calculate the fair value of stock option grants using the Black-Scholes option-pricing model. The assumptions used in the Black-Scholes model ranged from two months to ten years for the expected term, 37%-74% for the expected volatility, 4.34% to 5.08% for the risk free rate and zero percent for dividend yield for the year ended December 31, 2006 and the three months ended March 31, 2007. Future option expense could be impacted by changes in our model assumptions.

For employee stock option grants, the weighted average expected option terms for 2006 and the three months ended March 31, 2007 represent the application of the simplified method as defined in SEC Staff Accounting Bulletin (or SAB), No. 107 issued in March of 2005. The simplified method defines the expected life as the average of the contractual term of the options and the weighted average vesting period for the option. For non-employee stock option grants, the expected option terms for 2006 and the three months ended March 31, 2007 represent the contractual term.

We estimated volatility for 2006 and for the first quarter of 2007 in accordance of SAB No. 107. As there has been no public market for our common stock prior to this offering, and therefore, a lack of company-specific historical or implied volatility data, we have determined the share-price volatility based on an analysis of certain publicly-traded companies that we consider to be our peers. The comparable peer companies used for our estimated volatility are publicly-traded companies with operations which we believe to be similar to ours. When identifying companies as peers, we consider such characteristics as the type of industry, size and/or type of product(s), research and/or product development capabilities and stock-based transactions. We intend to continue to consistently estimate our volatility in this manner until sufficient historical information regarding the volatility of our own shares becomes available, or circumstances change such that the identified entities are no longer similar to us. In this latter case, we would utilize other similar entities whose share prices are publicly available.

As of March 31, 2007, we had approximately \$766,000 of unrecognized share-based compensation expense related to unvested option awards. Additionally, as of March 31, 2007, we had outstanding vested options to purchase 3,894,584 shares of our common stock and unvested options to purchase 139,067 shares of our common stock. Furthermore, as of March 31, 2007, we had outstanding 34,479 warrants to purchase shares of our common stock.

### **Research and Development**

We account for research and development costs and accrue expenses, based on estimates of work performed, patient enrollment or fixed-fee-for-services. As work is performed and/or invoices are

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received, we adjust our estimates and accruals. To date, our accruals have been within our estimates. Total research and development costs are a function of studies being conducted and will increase or decrease depending on the level of activity in any particular year.

**Intangible Assets**

Intangible assets include license agreements, product rights and other identifiable intangible assets. We assess the impairment of identifiable intangible assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. In determining the recoverability of our intangible assets, we must make assumptions regarding estimated future cash flows and other factors. If the estimated undiscounted future cash flows do not exceed the carrying value of the intangible assets, we must determine the fair value of the intangible assets. If the fair value of the intangible assets is less than the carrying value, an impairment loss will be recognized in an amount equal to the difference.

**RESULTS OF OPERATIONS**

The following table sets forth, for the periods indicated, certain items from our statement of operations expressed as a percentage of net revenues, as well as the period-to-period change in these items.

	Years Ended		Three Months Ended					% Change Three Months Ended March 31, 2006-2007
			March 31,		% Change			
	2004	2005	2006	2006	2007	2004-2005	2005-2006	
	December 31,							
	2004	2005	2006	2006	2007	2004-2005	2005-2006	2006-2007
				(unaudited)				
Net revenues	100.0%	100.0%	100.0%	100.0%	100.0%	(11.2%)	66.7%	325.6%
Costs and expenses:								
Cost of products sold	6.8	5.0	13.5	2.0	9.7	(34.7)	349.9	2,002.5
Selling and marketing	56.5	52.8	41.2	95.5	40.9	(17.0)	30.1	82.3
Research and development	6.2	10.8	12.5	42.4	7.7	55.2	92.9	(23.2)
General and administrative	19.6	24.2	16.8	44.7	17.3	9.7	15.9	64.4



Amortization of product license rights			2.9	0.0	2.9			
Other	0.1	0.1	0.5	2.1	0.4	117.4	614.9	(13.1)
Total costs and expenses	89.2	93.0	87.5	186.7	78.8	(7.4)	56.9	79.7
Gain on insurance recovery	2.2	0.0	0.0	0.0	0.0	(100.0)	0.0	0.0
Operating income (loss)	13.0	7.0	12.5	(86.7)	21.2	(52.2)	196.5	204.0
Interest income	0.0	0.8	1.2	4.0	1.5	(1)	133.8	64.4
Interest expense	(8.4)	(0.6)	(4.1)	(4.9)	(3.3)	(93.8)	(1)	(180.2)
Other expense	(0.0)	(0.1)	(0.0)	(0.0)	(0.0)		(50.3)	0.0
Net income (loss) before income taxes	4.6	7.2	9.6	(87.7)	19.4	38.0	121.7	194.4
Income tax benefit (expense)	0.0	11.1	15.1	0.0	(6.9)		127.7	(1)
Net income (loss) <sup>(2)</sup>	4.6	18.3	24.7	(87.7)	12.5	250.1	125.4	160.7

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- (1) Not meaningful.
- (2) The sum of the individual amounts do not agree to the total due to rounding.

**Description of operating accounts**

*Net revenues* consist of net product revenue, revenue from co-promotion agreements and other revenue. Net product revenue consists primarily of gross revenue less discounts and allowances, such as cash discounts, rebates, chargebacks and returns. Revenue from co-promotion agreements includes product promotion fees. Other income includes rental and grant income.

*Cost of products sold* consists primarily of the cost of each unit of product sold. Cost of products sold also includes expense associated with the write-off of slow moving or expired product.

*Selling and marketing expense* consists primarily of expense relating to the promotion, distribution and sale of products, including salaries and related costs.

*Research and development expense* consists primarily of clinical trial expenses, salary and wages and related costs of materials and supplies, and certain activities of third-party providers participating in our clinical studies.

*General and administrative expense* includes finance and accounting expenses, executive expenses, office expenses and business development expenses, including salaries and related costs.

*Amortization of product license rights* resulted from our acquisition of the exclusive U.S. commercialization rights to Kristalose.

*Interest income* consists primarily of interest income earned on cash deposits.

*Interest expense* consists primarily of interest incurred on debt and other long-term obligations.

*Income tax benefit* consists primarily of the realization of our deferred tax assets less taxes incurred on income.

**Three months ended March 31, 2007 compared to three months ended March 31, 2006**

*Net revenues.* Net revenues for the three months ended March 31, 2007 totaled \$5.9 million, representing an increase of \$4.5 million, or 326%, over net revenues for the three months ended March 31, 2006 of \$1.4 million. The increase reflected growth of sales of Acetadote of \$3.0 million as well as recording all sales for Kristalose in the three months ended March 31, 2007 versus recording a co-promotion fee for Kristalose in the three months ended March 31, 2006. In April 2006, we entered into an agreement to acquire the U.S. commercial rights to Kristalose and began recording revenue based on shipments of the product. Prior to April 2006, we co-promoted Kristalose and recorded a co-promotion fee based on a percentage of the product's sales. For the three months ended March 31, 2007, gross sales were reduced by \$536,000, of which \$139,000 related to cash discounts, \$103,000 related to damaged and expired product returns, \$81,000 related to fee-for-service costs and \$213,000 related to estimated rebates and chargebacks. Gross sales for the three months ended March 31, 2006 were reduced by \$64,000, including \$47,000 related to

damaged and expired product returns and \$17,000 for cash discounts.

*Cost of products sold.* Cost of products sold during the three months ended March 31, 2007 totaled \$571,000, representing an increase of \$544,000, over cost of products sold during the three months ended March 31, 2006 of \$27,000. Cost of products sold as a percentage of net revenue was 9.7% and 2.0% in the three months ended March 31, 2007 and 2006, respectively. Of the increase, \$466,000 was due to recording the cost of products sold associated with Kristalose during 2007. Prior to that date, we recorded no Kristalose cost of products sold because of the co-promotion arrangement. Acetadote cost

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of products sold increased \$77,000 in the first quarter of 2007. As a percentage of Acetadote net revenues, cost of products sold was not materially different in the three-month periods ended March 31, 2007 and 2006.

*Selling and marketing.* Selling and marketing expense in the three months ended March 31, 2007 totaled \$2.4 million, representing an increase of \$1.1 million, or 82.3%, over selling and marketing expense in the three months ended March 31, 2006 of \$1.3 million. Selling and marketing expense as a percentage of net revenues was 40.9% and 95.5% in the three months ended March 31, 2007 and 2006, respectively. The decrease as a percentage was the result of the higher revenue generated in the first quarter of 2007 due to increased Acetadote sales combined with the recording of all Kristalose sales in the three months ended March 31, 2007 versus the Kristalose co-promotion fees recorded in the three months ended March 31, 2006. The dollar increase was due to \$877,000 in sales force-related costs associated with the additional sales representatives added to promote Kristalose. Distribution costs also increased by \$166,000 primarily related to Kristalose activity.

*Research and development.* Research and development expense in the three months ended March 31, 2007 totaled \$452,000, representing a decrease of \$137,000, or 23.2%, from research and development expense in the three months ended March 31, 2006, of \$589,000. Research and development expense as a percentage of net revenue was 7.7% and 42.4% in the three months ended March 31, 2007, and 2006, respectively. This decrease was due to reduced costs incurred related to our clinical studies resulting from the timing of patient enrollments. Research and development expense is expected to increase through the remainder of 2007, as we work to complete our final studies of Amelior prior to submission for approval to the FDA.

*General and administrative.* General and administrative expense in the three months ended March 31, 2007 totaled \$1.0 million, representing an increase of \$399,000, or 64.4%, over general and administrative expense in the three months ended March 31, 2006 of \$620,000. General and administrative expense as a percentage of net revenue was 17.3% and 44.7% in the first quarter of 2007 and 2006, respectively. The dollar increase in general and administrative expense was primarily due to increased share-based compensation of \$120,000, increased salary and wages of \$85,000, increased audit costs of \$150,000 and increased consulting expense of \$34,000. We expect general and administrative expense to increase in future periods as we add staff, expand our infrastructure and support the requirements of a public company.

*Amortization of product license rights.* Amortization of products license rights expense in the three months ended March 31, 2007 totaled \$172,000. There was no amortization of product license rights in the three months ended March 31, 2006, as our product license for Kristalose was not acquired until the second quarter of 2006.

*Interest income.* Interest income in the three months ended March 31, 2007 totaled \$90,000, compared to interest income in the three months ended March 31, 2006 of \$55,000. The increase was due to larger cash and cash equivalent balances in the first quarter of 2007.

*Interest expense.* Interest expense in the three months ended March 31, 2007 totaled \$192,000, compared to interest expense in the three months ended March 31, 2006 of \$69,000. The majority of the increase was due to interest expense associated with debt incurred to finance the acquisition of Kristalose as well as interest expense associated with accreting the discounted notes payable associated with the acquisition of Kristalose. In the first quarter of 2006, we had minimal debt and thus, minimal interest expense.

*Income tax expense.* Net income tax expense in the three months ended March 31, 2007 totaled \$410,000 compared to no income tax expense in the three months ended March 31, 2006. In the first



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quarter of 2006, the Company still had a significant valuation allowance for its deferred tax asset which was subsequently released in the fourth quarter of 2006 after determining that it was more likely than not that we would realize the benefits of the deferred tax asset.

**Year ended December 31, 2006 compared to year ended December 31, 2005**

*Net revenues.* Net revenues in 2006 totaled \$17.8 million, representing an increase of \$7.1 million, or 66.7%, over net revenues in 2005 of \$10.7 million. Of this increase, \$4.7 million was due to additional product revenue from sales of Kristalose, and \$611,000 was due to an increase in sales of Acetadote. In April 2006, we entered into an agreement to acquire the exclusive U.S. commercial rights to Kristalose and began recording revenue based on shipments of the product. Prior to April 2006, we co-promoted Kristalose and recorded a co-promotion fee based on a percentage of the product's sales. In 2005, revenue was reduced by approximately \$2.0 million for promotional costs owed to a wholesaler. Additionally, unlike prior years, in 2006, we did not offer any special purchasing opportunities to our customers prior to product price