

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2011

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 000-53071

**TARGETED MEDICAL PHARMA, INC.**  
(Exact name of registrant as specified in its charter)

Delaware

\_\_\_\_\_  
(State or other jurisdiction of Incorporation or organization)

20-5863618

\_\_\_\_\_  
(I.R.S. Employer Identification No.)

2980 Beverly Glen Circle  
Los Angeles, California

\_\_\_\_\_  
(Address of principal executive offices)

90077

\_\_\_\_\_  
(Zip Code)

(310) 474-9809

\_\_\_\_\_  
(Registrant's telephone number, including area code)

\_\_\_\_\_  
(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 if this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: As of November 14, 2011, there were 21,949,576 shares of common stock, par value \$0.001 per share, of the Registrant outstanding.

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**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

**TARGETED MEDICAL PHARMA, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**September 30, 2011 and December 31, 2010**  
**(Unaudited)**

	<b>September 2011 (Unaudited)</b>	<b>December 31, 2010</b>
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and Cash Equivalents	\$ 3,574	\$ 795,914
Investments	-	244,416
Inventory	328,768	365,350
Accounts Receivable - Net of Allowance for Doubtful Accounts	29,709,282	20,359,682
Loans Receivable - Employees	23,906	29,738
Prepaid Expenses - Short Term	239,085	113,691
Deferred Tax Asset - Short Term	560,738	309,892
Total Current Assets	<u>30,865,353</u>	<u>22,218,683</u>
Long Term Accounts Receivable	2,123,011	2,512,426
Property and Equipment - Net of Accumulated Depreciation	463,480	535,488
Intangible Assets - Net of Accumulated Amortization	2,508,778	2,201,690
Prepaid Expenses - Long Term	137,333	202,073
Deferred Tax Asset - Long Term	421,089	-
Other Assets	26,000	26,000
Total Assets	<u>\$ 36,545,044</u>	<u>\$ 27,696,360</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Liabilities:</b>		
Accounts Payable and Accrued Expenses	\$ 3,762,164	\$ 1,558,814
Notes Payable-Related Parties net of \$244,921 discount on warrants issued	1,427,079	300,000
Other Amounts due to Related Parties	602,948	-
Taxes Payable	7,246,631	5,054,635
Deferred Tax Liability - Current	1,288,278	1,287,776
Total Current Liabilities	<u>14,327,100</u>	<u>8,201,225</u>
Deferred Income Taxes	2,422,759	2,595,975
Total Liabilities	<u>16,749,859</u>	<u>10,797,200</u>
<b>Shareholders' Equity:</b>		
Preferred stock, \$0.001 par value; 20,000,000 shares authorized, no shares issued and outstanding	-	-
Common stock, \$0.001 par value; 100,000,000 shares authorized, 21,949,576 and 18,308,576 shares issued and outstanding at September 30, 2011 and December 31, 2010, respectively	21,950	18,309
Additional Paid-In Capital	3,635,144	3,191,314
Retained Earnings	16,138,091	13,686,328
Accumulated Other Comprehensive Income (Loss)	-	3,209
Total Shareholders' Equity	<u>19,795,185</u>	<u>16,899,160</u>
Total Liabilities and Shareholders' Equity	<u>\$ 36,545,044</u>	<u>\$ 27,696,360</u>

The accompanying notes are an integral part of these financial statements.

**TARGETED MEDICAL PHARMA, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
**Three Months and Nine Months ended September 30, 2011 and 2010**  
**(Unaudited)**

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010 (Restated)	2011	2010 (Restated)
<b>Revenues:</b>				
Product Sales	\$ 5,059,906	\$ 4,728,512	\$ 15,357,960	\$ 12,260,677
Service Revenue	99,505	187,274	478,437	963,788
<b>Total Revenue</b>	<b>5,159,411</b>	<b>4,915,786</b>	<b>15,836,397</b>	<b>13,224,465</b>
<b>Cost of Sales:</b>				
Cost of Product Sold	334,157	339,155	876,090	948,645
Cost of Services Sold	419,361	363,425	1,089,823	1,014,739
<b>Total Cost of Sales</b>	<b>753,518</b>	<b>702,580</b>	<b>1,965,913</b>	<b>1,963,384</b>
<b>Total Gross Profit</b>	<b>4,405,893</b>	<b>4,213,206</b>	<b>13,870,484</b>	<b>11,261,081</b>
<b>Operating Expenses:</b>				
Research and Development	50,600	75,085	119,720	240,079
Selling, General and Administrative	3,113,310	1,476,984	8,965,207	4,572,995
<b>Total Operating Expenses</b>	<b>3,163,910</b>	<b>1,552,069</b>	<b>9,084,927</b>	<b>4,813,074</b>
<b>Net Income before Other Income</b>	<b>1,241,983</b>	<b>2,661,137</b>	<b>4,785,557</b>	<b>6,448,007</b>
<b>Other Income and Expense:</b>				
Interest Income (Expense)	(583,739)	-	(594,139)	-
Investment Income (Loss)	-	9,162	7,638	5,045
<b>Total Other Income and (Expense)</b>	<b>(583,739)</b>	<b>9,162</b>	<b>(586,501)</b>	<b>5,045</b>
<b>Net Income before Taxes</b>	<b>658,244</b>	<b>2,670,299</b>	<b>4,199,056</b>	<b>6,453,052</b>
Income Taxes	980,319	1,358,438	2,627,680	3,413,228
Deferred Income Tax Expense (Benefit)	(545,238)	(223,561)	(880,387)	(670,681)
<b>Net Income before Comprehensive Income</b>	<b>223,163</b>	<b>1,535,422</b>	<b>2,451,763</b>	<b>3,710,505</b>
Unrealized Gain or (Loss) on Investments	-	(9,004)	-	(4,364)
Reclassification for losses included in Net Income	-	-	(3,209)	-
<b>Comprehensive Income</b>	<b>\$ 223,163</b>	<b>\$ 1,526,418</b>	<b>\$ 2,448,554</b>	<b>\$ 3,706,141</b>
<b>Basic Earnings Per Share</b>	<b>\$ 0.01</b>	<b>\$ 0.08</b>	<b>\$ 0.11</b>	<b>\$ 0.20</b>
<b>Diluted Earnings Per Share</b>	<b>\$ 0.01</b>	<b>\$ 0.08</b>	<b>\$ 0.11</b>	<b>\$ 0.20</b>
Basic Weighted Average Number of Common Shares Outstanding	21,949,576	18,315,455	21,536,821	18,315,455
Diluted Weighted Average Number of Common Shares Outstanding	22,141,591	18,507,470	21,728,835	18,507,470

The accompanying notes are an integral part of these financial statements.

**TARGETED MEDICAL PHARMA, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
Year ended December 31, 2010 and nine months ended September 30, 2011  
(Unaudited)

	<u>Number of Shares of Common Stock</u>	<u>Amount</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total</u>
Balance - January 1, 2010 (1)	18,313,455	\$ 18,314	\$ 3,057,804	\$ 7,878,067	\$ (1,980)	\$ 10,952,205
Stock Issued for Services	14,789	15	49,985	-	-	50,000
Shares Retired	(19,668)	(20)	20	-	-	-
Stock Option Expense	-	-	83,505	-	-	83,505
Net Income	-	-	-	5,808,261	-	5,808,261
Unrealized Gain on Investments	-	-	-	-	5,189	5,189
Balance - December 31, 2010	18,308,576	18,309	3,191,314	13,686,328	3,209	16,899,160
Stock Issued for Services	16,000	16	40,784	-	-	40,800
Shares issued to existing shell shareholders in the reorganization	3,625,000	3,625	(503,625)	-	-	(500,000)
Reclassification of Gains to Net Income	-	-	-	-	(3,209)	(3,209)
Warrants Issued in connection with loans from related party	-	-	244,921	-	-	244,921
Stock Option Expense	-	-	661,750	-	-	661,750
Net Income	-	-	-	2,451,763	-	2,451,763
Balance - September 30, 2011 (Unaudited)	<u>21,949,576</u>	<u>\$ 21,950</u>	<u>\$ 3,635,144</u>	<u>\$ 16,138,091</u>	<u>\$ -</u>	<u>\$ 19,795,185</u>

(1) The stockholders' equity has been recapitalized to give effect to the shares exchanged by existing shareholders pursuant to the merger agreement dated January 31, 2011, more fully discussed in Note 7 to these financial statements.

**TARGETED MEDICAL PHARMA, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**Nine Months ended September 30, 2011 and 2010**  
**(Unaudited)**

	<b>Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>
<b>Cash Flows from Operating Activities:</b>		
Net Income	\$ 2,451,763	\$ 3,710,505
<b>Adjustments:</b>		
Depreciation and Amortization	336,886	237,405
Stock Option Compensation	661,750	41,752
Stock Issued for Services	40,800	
Deferred Income Taxes	880,387	670,681
Bad Debts Expense	250,000	518,470
<b>Changes:</b>		
Inventory	36,582	16,816
Accounts Receivable	(9,210,185)	(7,357,911)
Loans Receivable - Employees	5,832	(98,141)
Prepaid Expenses	(60,654)	(226,669)
Deferred Tax Asset	(1,552,322)	(697,524)
Other Assets		
Accounts Payable and Accrued Expenses	2,143,350	427,647
Taxes Payable	2,191,996	3,327,337
Deferred Tax Liability	(172,714)	(643,838)
Net Cash Flows from Operating Activities	(1,996,529)	(73,470)
<b>Cash Flows from Investing Activities:</b>		
Net Sales or (Purchases) of Investments	241,207	408,577
Acquisition of Intangible Assets	(488,147)	(96,583)
Purchases of Property and Equipment	(83,819)	(332,748)
Net Cash Flows from Investing Activities	(330,759)	(20,754)
<b>Cash Flows from Financing Activities:</b>		
Notes Payable-Related Parties	932,000	-
Due to Related Parties	602,948	-
Net Cash Flows from Financing Activities	1,534,948	-
Net Change in Cash and Cash Equivalents	(792,340)	(94,224)
Cash and Cash Equivalents - Beginning of Year	795,914	321,216
Cash and Cash Equivalents - End of Period	\$ 3,574	\$ 226,992

**Supplemental Disclosure of Cash Flow Information**

Interest Paid		-
Interest Expense		-

**Supplemental Disclosure of Non-Cash Investing and Financing Activities**

On January 31, 2011 the Company issued a note payable to the Company's Founders in the amount of \$440,000 in partial payment of the \$500,000 stock purchase of the shell company. The remaining \$60,000 is included in Accrued Expenses.

The accompanying notes are an integral part of these financial statements.

## Notes to Condensed Consolidated Financial Statements (Unaudited)

### Note 1: Business Activity

TARGETED MEDICAL PHARMA, INC. ("Company"), also doing business as Physician Therapeutics ("PTL"), is a specialty pharmaceutical company that develops and commercializes nutrient- and pharmaceutical-based therapeutic systems. The Company also does business as Laboratory Industry Services ("LIS"), which is a facility for the performance of diagnostic testing. On July 30, 2007, the Company formed the wholly owned subsidiary, Complete Claims Processing, Inc. ("CCPI"), which provides billing and collection services on behalf of physicians for claims to insurance companies, governmental agencies and other medical payers.

### Segment Information:

The Company had revenue outside of the United States of \$168,244 and \$95,287 for the quarters ended September 30, 2011 and 2010, respectively. The Company's operations are organized into two reportable segments: TMP and CCPI.

- TMP: This segment includes PTL and LIS as described above. This segment develops and distributes nutrient based therapeutic products and distributes pharmaceutical products from other manufacturers through employed sales representatives and distributors. TMP also performs the administrative, regulatory compliance, sales and marketing functions of the corporation, owns the corporation's intellectual property and is responsible for research and development relating to medical food products and the development of software used for the dispensation and billing of medical foods, generic and branded products. The TMP segment also manages contracts and chargebacks.
- CCPI: This segment provides point-of-care dispensing solutions and billing and collections services. It is responsible for the research and development of billing software and methodologies and the customization of hardware that supports dispensing, billing and collection operations.

**Segment Information for the three months ended September 30,**

	<b>2011</b>	<b>Total</b>	<b>TMP</b>	<b>CCPI</b>
Gross Sales		\$ 5,159,411	\$ 5,059,906	\$ 99,505
Gross Profit		\$ 4,405,893	\$ 4,725,749	\$ (319,856)
Net Income and Comprehensive Income		\$ 223,163	\$ 586,874	\$ (363,711)
Total Assets		\$ 36,545,044	\$ 39,937,658	\$ (3,392,614)
less Eliminations		\$ -	\$ (3,424,405)	\$ 3,424,405
Net Total Assets		<u>\$ 36,545,044</u>	<u>\$ 36,513,253</u>	<u>\$ 31,791</u>
	<b>2010 (Restated)</b>	<b>Total</b>	<b>TMP</b>	<b>CCPI</b>
Gross Sales		\$ 4,915,786	\$ 4,728,512	\$ 187,274
Gross Profit		\$ 4,213,206	\$ 4,389,357	\$ (176,151)
Net Income and Comprehensive Income		\$ 1,526,418	\$ 1,754,481	\$ (228,063)
Total Assets		\$ 23,122,560	\$ 25,116,880	\$ (1,994,320)
less Eliminations		\$ -	\$ (1,978,292)	\$ 1,978,292
Net Total Assets		<u>\$ 23,122,560</u>	<u>\$ 23,138,588</u>	<u>\$ (16,028)</u>

**Segment Information for the nine months ended September 30,**

	<b>2011</b>	<b>Total</b>	<b>TMP</b>	<b>CCPI</b>
Gross Sales		\$ 15,836,397	\$ 15,357,960	\$ 478,437
Gross Profit		\$ 13,870,484	\$ 14,481,870	\$ (611,386)
Net Income and Comprehensive Income		\$ 2,448,554	\$ 2,695,279	\$ (246,725)
Total Assets		\$ 36,545,044	\$ 39,937,658	\$ (3,392,614)
less Eliminations		\$ -	\$ (3,424,405)	\$ 3,424,405
Net Total Assets		<u>\$ 36,545,044</u>	<u>\$ 36,513,253</u>	<u>\$ 31,791</u>
	<b>2010 (Restated)</b>	<b>Total</b>	<b>TMP</b>	<b>CCPI</b>
Gross Sales		\$ 13,224,465	\$ 12,260,677	\$ 963,788
Gross Profit		\$ 11,261,081	\$ 11,312,032	\$ (50,951)
Net Income and Comprehensive Income		\$ 3,706,141	\$ 3,863,526	\$ (157,385)
Total Assets		\$ 23,122,560	\$ 25,116,880	\$ (1,994,320)
less Eliminations		\$ -	\$ (1,978,292)	\$ 1,978,292
Net Total Assets		<u>\$ 23,122,560</u>	<u>\$ 23,138,588</u>	<u>\$ (16,028)</u>

## **Note 2: Summary of Significant Accounting Policies**

**General:** The accompanying unaudited financial statements include all adjustments of a normal and recurring nature which, in the opinion of Company's management, are necessary to present fairly the Company's financial position as of September 30, 2011, the results of its operations for the three months and nine months ended September 30, 2011 and 2010, and cash flows for nine months ended September 30, 2011 and 2010. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to the rules and regulations of the Securities and Exchange Commission. These condensed financial statements should be read in conjunction with the audited financial statements and related notes for the fiscal year ended contained in the Company's Current Report on Form 8K/A dated April 15, 2011.

The results of operations and cash flows for the three months and nine months ended September 30, 2011 are not necessarily indicative of the results to be expected for the full year's operation.

**Principles of consolidation:** The consolidated financial statements include accounts of TMP and its wholly owned subsidiary, CCPI, collectively referred to as "the Company". All significant intercompany accounts and transactions have been eliminated in consolidation. In addition, TMP and CCPI share the common operating facility, certain employees and various costs. Such expenses are principally paid by TMP. Due to the nature of the parent and subsidiary relationship, the individual financial position and operating results of TMP and CCPI may be different from those that would have been obtained if they were autonomous.

**Accounting estimates:** The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash Equivalents:** The Company considers all highly liquid investments purchased with an original or remaining maturity of three months or less when purchased to be cash equivalents. The recorded carrying amounts of the Company's cash and cash equivalents approximate their fair market value.

**Considerations of credit risk:** Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of trade accounts receivable.

As of September 30, 2011, two customers constituted 36% and 11%, respectively of our outstanding accounts receivable.

### **Revenue Recognition:**

TMP markets medical foods and generic and branded pharmaceuticals through employed sales representatives, independent distributors and pharmacies. Product sales are invoiced upon shipment at Average Wholesale Price ("AWP"), which is a commonly used term in the industry, with varying rapid pay discounts, under four models:

- *Physician Direct Sales Model* (2% of revenue for nine months ended September 30, 2011): Under this model, a physician purchases products from TMP but does not retain CCPI's services. TMP invoices the physician upon shipment under terms which allow a significant rapid pay discount for payment within discount terms in accordance with the product purchase agreement. The physicians dispense the product and perform their own claims processing and collections. TMP recognizes revenue under this model on the date of shipment at the gross invoice amount less the anticipated rapid pay discount offered in the product purchase agreement. In the event payment is not received within the term of the agreement, the amount payable for the purchased TMP products reverts to the AWP. In addition, if payment is not received within the agreed-upon term, a late payment fee of up to 20% may be applied to the outstanding balance. The physician is responsible for payment directly to TMP.

- *Distributor Direct Sales Model* (17% of revenue for nine months ended September 30, 2011): Under this model, a distributor sells products to a physician and the physician does not retain CCPI's services. TMP invoices distributors upon shipment under terms which allow a significant rapid pay discount for payment within discount terms in accordance with the product purchase agreement. The distributor sells the products to physicians. TMP recognizes revenue under this model on the date of shipment at the gross invoice amount less the anticipated rapid pay discount offered in the product purchase agreement. In the event payment is not received within the term of the agreement, the amount payable for the purchased TMP products reverts to the AWP. In addition, if payment is not received within the agreed-upon term, a late payment fee of up to 20% may be applied to the outstanding balance.
- *Physician Managed Model* (65% of revenue for nine months ended September 30, 2011): In 2010, the Company made a decision to focus on growing its business under the Physician Managed Model because of its greater profitability. The Physician Managed Model is most profitable and generates increased revenue for us because the product discounts offered under this model are smaller than the product discounts offered to clients under the Distributor Direct Sales Model or the Hybrid Model and additional revenue is received by CCPI upon collection. In order to support this strategic initiative, we created a sales manager position and hired additional sales and support staff. Under this model, a physician purchases products from TMP and retains CCPI's services. TMP invoices physician upon shipment to physician under terms which allow a significant rapid pay discount for payment received within terms in accordance with the product purchase agreement which includes a security interest for TMP in the products and receivables generated by the dispensing of the products. TMP recognizes revenue under this model on the date of shipment at the gross invoice amount less the anticipated rapid pay discount offered in the product purchase agreement. The physician also executes a billing and claims processing services agreement with CCPI for billing and collection services relating to our products (discussed below). CCPI submits a claim for reimbursement on behalf of the physician client. The CCPI fee and product invoice amount are deducted from the reimbursement received by CCPI on behalf of the physician client before the reimbursement is forwarded to the physician client. In the event the physician fails to pay the product invoice within the agreed term, we can deduct the payment due from any of the reimbursements received by us on behalf of the physician client as a result of the security interest we obtained in the products we sold to the physician client and the receivables generated by selling the products in accordance with our agreement. In the event payment is not received within the term of the agreement, the amount payable for the purchased TMP products reverts to the AWP. In addition, if payment is not received within the agreed-upon term, a late payment fee of up to 20% is applied to the outstanding balance. However, since we are in the early stage of our business, as a courtesy to our physician clients, our general practice has been to extend the rapid pay discount beyond the initial term of the invoice until the invoice is paid and not to apply a late payment fee to the outstanding balance.
- *Hybrid Model* (16% of revenue for nine months ended September 30, 2011): Under this model, a distributor sells product to a physician and the physician retains CCPI's services. TMP invoices distributors upon shipment under terms which allow a significant rapid pay discount for payment received within terms in accordance with the product purchase agreements. TMP recognizes revenue under this model on the date of shipment at the gross invoice amount less the anticipated rapid pay discount offered in the product purchase agreement. Distributors sell the products to physicians and collect the purchase price from the physician client directly. The physician client of the distributor executes a billing and claims processing services agreement with CCPI for billing and collection services (discussed below). The CCPI fee is deducted from the reimbursement received by CCPI on behalf of the physician client before the reimbursement is forwarded to the physician client. In the event payment is not received within the term of the agreement, the amount payable for the purchased TMP products reverts to the AWP. In addition, if payment is not received within the agreed-upon term, a late payment fee of up to 20% is applied to the outstanding balance.

CCPI receives no revenue in the physician direct or distributor direct models because it does not provide collection and billing services to the physician clients.

In the managed physician model and in the hybrid model, CCPI has a billing and claims processing service agreement with the physician. That agreement includes a service fee defined as a percentage of collections on all claims plus all or a portion of any penalties and interest collected. CCPI prepares the claim on behalf of the physician and administers the claim through collection. Collections from commercial insurers generally occur within 90 days. While ultimate collectability of workers' compensation claims is very high, most workers' compensation claims are denied on first claim attempt and can take from 45 days to four years to collect. The initial denial begins a process of correspondence designed to clear denial objections, submission of workers' compensation lien filings against insurer settlements on behalf of physicians and settlement hearings. Because fees are only earned by CCPI upon collection of the claim and the fee is not determinable until the amount of the collection of the claim is known, CCPI recognizes revenue at the time that collections are received.

The impact of this extended collection cycle on CCPI is that revenue and receipt of revenue are delayed until collection of the claims on behalf of the physician. This has a direct impact on CCPI's revenue and cash flow because CCPI's revenue is recognized upon receipt of the claims collection on behalf of the physician. The long collection cycle does not directly impact TMP's revenue from the sale of products because TMP recognizes revenue upon shipment to the physician clients and the physician client is obligated to pay the purchase price for the products within the prescribed terms whether or not the physician client has received reimbursement for the claims submitted. It does, however, impact the cash flow for TMP since most physician invoices are paid from the proceeds of claims managed on behalf of the physicians. The result is that invoices due from the physicians to TMP can have a long collection cycle even though revenue is recognized upon shipment of product.

No returns of products are allowed except products damaged in shipment, which has been insignificant.

The rapid pay discounts to the AWP offered to the physician or distributor, under the models described above, vary based upon the expected payment term from the physician or distributor. The discounts are derived from the Company's historical experience of the collection rates from internal sources and updated for facts and circumstances and known trends and conditions in the industry, as appropriate. As described in the models above, we recognize provisions for rapid pay discounts in the same period in which the related revenue is recorded. We believe that our current provisions appropriately reflect our exposure for rapid pay discounts. These rapid pay discounts, have typically ranged from 40% to 83% of Average Wholesale Price and we have monitored our experience ratio periodically over the prior twelve months and have made adjustments as appropriate.

Allowance for doubtful accounts: Under the direct sales to physician, direct sales to distributor and hybrid models, product is sold under terms that allow substantial discounts (40-83%) for payment within terms. With such substantial discounts, it is rare that an invoice is not paid within terms and no allowance is calculated because they are booked at the discounted amount in accounts receivable and revenue. Under the Company's physician managed model and hybrid model, CCPI performs billing and collection services on behalf of the physician client and deducts the CCPI fee and product invoice amount from the reimbursement received by CCPI on behalf of the physician client before the reimbursement is forwarded to the physician client. Extended collection periods are typical in the workers compensation industry with payment terms extending from 45 days up to four years. The physician remains personally liable for purchases of product from TMP and, during this long collection cycle, TMP retains a security interest in all products sold to the physician along with the claims receivable that result from sales of the products. CCPI maintains an accounting of all managed accounts receivable on behalf of the physician and regularly reports to the physician. Bad debts are recognized on the allowance method based on historical experience, contractual payment terms and management's evaluation of outstanding accounts receivable. Included in this analysis is a comparison of the total amount of all invoices due from the physician to TMP for products purchased to all outstanding claims in the managed accounts receivable on behalf of the physician. To the extent that the amount due from the physician to TMP for product purchases exceeds the expected collectible value of outstanding claims in the managed accounts receivable, management takes additional measures including withholding additional amounts due from monthly residual payments to physicians under the billing and collection services agreement. To the extent that these efforts are unsuccessful, the Company may seek legal action for payment directly from the physician under the contract, although the Company has not yet pursued this type of action.

In addition to the bad debt recognition policy above, it is also TMP's policy to write down uncollectible loans and trade receivables when the payer is no longer in existence, is in bankruptcy or is otherwise insolvent. In such instances our policy is to reduce accounts receivable by the uncollectible amount and to proportionally reduce the allowance for doubtful accounts.

Inventory valuation: Inventory is valued at the lower of cost (first in, first out) or market and consists primarily of finished goods.

Property and equipment: Property and equipment are stated at cost. Depreciation is calculated using the straight line method over the estimated useful lives of the related assets. Computer equipment is amortized over three to five years. Furniture and fixtures are depreciated over five to seven years. Leasehold improvements are amortized over the shorter of fifteen years or term of the applicable property lease. Maintenance and repairs are expensed as incurred; major renewals and betterments that extend the useful lives of property and equipment are capitalized. When property and equipment is sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is recognized. Amenities are capitalized as leasehold improvements.

Impairment of long-lived assets: The long-lived assets held and used by the Company are reviewed for impairment no less frequently than annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In the event that facts and circumstances indicate that the cost of any long-lived assets may be impaired, an evaluation of recoverability is performed. No asset impairment was recorded for the nine months ended September 30, 2011 or 2010.

Intangible assets: Intangible assets with finite lives, including patents and internally developed software (primarily the Company's PDRx Software), are stated at cost and are amortized over their useful lives. Patents are amortized on a straight line basis over their statutory lives, usually fifteen to twenty years. Internally developed software is amortized over three to five years. Intangible assets with indefinite lives are tested annually for impairment, during the fiscal fourth quarter and between annual periods, and more often when events indicate that an impairment may exist. If impairment indicators exist the intangible assets are written down to fair value as required. No asset impairment was recorded for the nine months ended September 30, 2011 or 2010.

On September 18, 2009, TMP entered into a settlement with one of its distributors on its accounts receivable of \$1,301,000. Pursuant to the agreement, the distributor agreed to: (1) sell all domain names and assets associated with the website, medicalfoods.com to TMP, and (2) surrender to TMP its entire PTL physician client list, except for four individual PTL active physician groups, and waive all rights associated with its PTL physical client list. The client list had no value since most of the clients had become PLT clients already. The value of the domain name was based on the fair value of the asset exchanged.

Fair value of financial instruments: The Company's financial instruments are accounts receivable, accounts payable and notes payable. The recorded values of accounts receivable, accounts payable, and notes payable approximate their values based on their short term nature.

Income taxes: The Company determines its income taxes under the asset and liability method. Under the asset and liability approach, deferred income tax assets and liabilities are calculated and recorded based upon the future tax consequences of temporary differences by applying enacted statutory tax rates applicable to future periods for differences between the financial statements carrying amounts and the tax basis of existing assets and liabilities. Generally, deferred income taxes are classified as current or non-current in accordance with the classification of the related asset or liability. Those not related to an asset or liability are classified as current or non-current depending on the periods in which the temporary differences are expected to reverse. Valuation allowances are provided for significant deferred income tax assets when it is more likely than not that some or all of the deferred tax assets will not be realized.

The Company recognizes tax liabilities by prescribing a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized, and also provides guidance on de-recognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. To the extent that the final tax outcome of these matters is different than the amount recorded, such differences impact income tax expense in the period in which such determination is made. Interest and penalties, if any, related to accrued liabilities for potential tax assessments are included in income tax expense.

Stock-Based Compensation: The Company accounts for stock option awards in accordance with ASC 718. Under ASC 718, compensation expense related to stock-based payments is recorded over the requisite service period based on the grant date fair value of the awards. Compensation previously recorded for unvested stock options that are forfeited is reversed upon forfeiture. The Company uses the Black-Scholes option pricing model for determining the estimated fair value for stock-based awards. The Black-Scholes model requires the use of assumptions which determine the fair value of stock-based awards, including the option's expected term and the price volatility of the underlying stock.

The Company's accounting policy for equity instruments issued to consultants and vendors in exchange for goods and services follows the provisions of ASC 505-50. Accordingly, the measurement date for the fair value of the equity instruments issued is determined at the earlier of (i) the date at which a commitment for performance by the consultant or vendor is reached or (ii) the date at which the consultant or vendor's performance is complete. In the case of equity instruments issued to consultants, the fair value of the equity instrument is recognized over the term of the consulting agreement.

Income Per Share: The Company utilizes ASC 260, "Earnings per Share". Basic income (loss) per share is computed by dividing income (loss) available to common shareholders by the weighted-average number of common shares outstanding. Diluted income (loss) per share is computed similar to basic income (loss) per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. Common equivalent shares are excluded from the computation if their effect is anti-dilutive.

The following potential common shares have been excluded from the computation of diluted net income (loss) per share for the periods presented where the effect would have been anti-dilutive:

	<u>September 30, 2011</u>	<u>September 30, 2010</u>
Options outstanding	291,347	258,809

**Research and development:** Research and development costs are expensed as incurred. In instances where we enter into agreements with third parties for research and development activities we may prepay fees for services at the initiation of the contract. We record the prepayment as a prepaid asset and amortize the asset into research and development expense over the period of time the contracted research and development services are performed. Most contract research agreements include a ten year records retention and maintenance requirement. Typically, we expense 50% of the contract amount within the first two years of the contract and 50% over the remainder of the record retention requirements under the contract based on our experience on how long the clinical trial service is provided.

**Reclassification**

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation in the current-year financial statements.

**Note 3: Stock Based Compensation**

For the three months ended September 30, 2011 and 2010, the Company recorded compensation costs for options amounting to \$130,777 and \$20,876 respectively. For the nine months ended September 30, 2011 and 2010, the Company recorded compensation costs for options amounting to \$661,750 and \$41,752 respectively. A deduction is not allowed for income tax purposes until nonqualified options are exercised. The amount of this deduction will be the difference between the fair value of the Company's common stock and the exercise price at the date of exercise. Accordingly, there is a deferred tax asset recorded for the tax effect of the financial statement expense recorded. The tax effect of the income tax deduction in excess of the financial statement expense, if any, will be recorded as an increase to additional paid-in capital. No tax deduction is allowed for incentive stock options (ISO). Accordingly no deferred tax asset is recorded for GAAP expense related to these options.

Management has valued the options at their date of grant utilizing the Black Scholes option pricing model. As of the issuance of these financial statements, there was not a public market for the Company shares. Accordingly, the fair value of the underlying shares was determined based on the historical volatility data of similar companies, considering the industry, products and market capitalization of such other entities. The risk-free interest rate used in the calculations is based on the implied yield available on U.S. Treasury issues with an equivalent term approximating the expected life of the options depending on the date of the grant and expected life of the options. The expected life of the options used was based on the contractual life of the option granted. Stock-based compensation is a non-cash expense because we settle these obligations by issuing shares of our common stock from our authorized shares instead of settling such obligations with cash payments.

The fair value of options granted in the nine months ended September 30, 2011 was determined using the following assumptions:

- Volatility factors of 83-84% were based on similar companies;
- Expected terms of 5.25-6 years based on one-half of the average of the vesting term and the ten year expiration of the option grant;
- A dividend rate of zero; and
- The risk free rate was the treasury rate with a maturity of the expected term (1.95% to 2.46%).

The following table summarizes the status of the Company's aggregate stock options granted:

	<u>Number of Shares Remaining Options</u>	<u>Weighted Average Exercise Price</u>
Outstanding at January 1, 2011	566,424	\$ 2.11
Options granted during 2011	732,538	\$ 2.59
Options exercised during 2011	0	
Options forfeited during 2011	365,871	\$ 2.62
Outstanding at September 30, 2011	933,091	\$ 2.28
Exercisable at September 30, 2011	763,666	\$ 2.10

The following table summarizes the status of the Company's aggregate non-vested shares

	Number of Non-vested Shares	Weighted Average fair Value at Grant Date
Non-vested at December 31, 2010	206,310	\$ 1.07
Granted in nine months ended September 30, 2011	732,538	\$ 1.81
Forfeited in nine months ended September 30, 2011	365,871	\$ 1.76
Vested in nine months ended September 30, 2011	403,352	\$ 1.61
Non-vested at September 30, 2011	169,425	\$ 1.51
Exercisable at September 30, 2011	763,666	\$ 1.07
Outstanding at September 30, 2011	933,091	\$ 1.15

As of September 30, 2011, the unrecognized compensation cost related to share based compensation arrangements granted under the 2011 Targeted Medical Pharma, Inc. Stock Incentive Plan was approximately \$277,810, which will be recognized over a weighted average 283 days.

Per employment agreements with each of Dr. Shell, Ms. Charuvastra and Mr. Giffoni (the "TMP Insiders"), each dated September 1, 2010 and amended on January 31, 2011, the TMP Insiders are entitled to 500,000 shares of common stock and annual base salary and benefits for the longer of the remaining term of the employment agreement or 30 months in the event the TMP Insider is terminated without cause by us or with cause by the TMP Insider. We would have "cause" to terminate the employment relationship upon (i) a TMP Insider's conviction of or a plea of nolo contendere for the commission of a felony or (ii) the TMP Insider's willful failure to substantially perform the TMP Insider's duties under the employment agreement. A TMP Insider will have "cause" to terminate the employment relationship with us in the event any of the following circumstances are not remedied within 30 days of our receipt of a notice of termination from the TMP Insider: (i) a material change in the TMP Insider's duties or a material limitation of the TMP Insider's powers; (ii) a failure to elect the TMP Insider to the management position specified in such TMP Insider's employment agreement or a reduction of the TMP Insider's annual base salary; (iii) our failure to continue in effect any benefit plan in effect upon the execution of the initial employment agreement, (iv) a material breach by us of the employment agreement and (v) a change in control (which is defined in the TMP Insiders' employment agreements). Amendment No. 1 to each of the TMP Insiders' employment agreements deleted the change in control provisions.

Pursuant to the employment agreements, the TMP Insiders are also entitled to receive incentive stock options ranging from 7,394 options to 110,917 options, each at an exercise price of \$3.49 per share (which numbers have been adjusted for the Reorganization), in the event we achieve certain EBITDA targets ranging from \$50,000,000 to \$250,000,000. The Company will grant additional incentive stock options upon achievement of each milestone set forth below. Milestone levels shall be based upon EBIDTA reported in the financial statements during any calendar year. EBIDTA is defined as earnings before taxes, interest, depreciation, and amortization.

**EBIDTA**

\$50,000,000  
 \$60,000,000  
 \$80,000,000  
 \$100,000,000  
 \$125,000,000  
 \$150,000,000  
 \$175,000,000  
 \$200,000,000  
 \$250,000,000

**Options**

an option to purchase 5,000 shares Common Stock.  
 an option to purchase 7,500 shares Common Stock.  
 an option to purchase 7,500 shares Common Stock.  
 an option to purchase 10,000 shares Common Stock.  
 an option to purchase 10,000 shares Common Stock.  
 an option to purchase 10,000 shares Common Stock.  
 an option to purchase 15,000 shares Common Stock.  
 an option to purchase 50,000 shares Common Stock.  
 an option to purchase 75,000 shares Common Stock.

The fair value of warrants issued in connection with certain loans made by related parties during the nine months ended September 30, 2011 was determined using the Black Scholes Option Pricing Model with the following assumptions:

- Stock price of \$2.55
- Exercise price of \$3.38
- Volatility factor of 96.66% based on similar companies;
- Expected term of 5 years based on the term of the warrant;
- A dividend rate of zero; and
- The risk free rate of 0.90%

The following table summarizes the status of the Company's outstanding warrants

<b>Date</b>	<b>Note Amount</b>	<b>Interest Rate</b>	<b>Number of Shares</b>	<b>Value of Warrant</b>	<b>Discounted Note Value</b>
08/19/11	\$ 150,000	3.95%	43,568	\$ 76,220	\$ 73,780
09/01/11	\$ 80,000	3.95%	23,237	\$ 40,651	\$ 39,349
09/23/11	\$ 52,000	3.95%	15,104	\$ 26,423	\$ 25,577
09/28/11	\$ 200,000	3.95%	58,091	\$ 101,627	\$ 98,373
<b>Total</b>	<b>\$ 482,000</b>		<b>140,000</b>	<b>\$ 244,921</b>	<b>\$ 237,079</b>

**Note 4: Notes Payable – Related Parties**

On December 12, 2010, the Company issued a promissory note to the Targeted Medical Pharma, Inc. Profit Sharing Plan (the "Plan") in the amount of \$300,000 (the "Plan Note"). The note bears interest at a rate of 8.0 percent per annum and was payable on June 12, 2011.

On January 31, 2011, the Company issued promissory notes to each of William Shell, our Chief Executive Officer, Chief Scientific Officer, interim Chief Financial Officer and a director, Elizabeth Charuvastra, our Chairman, Vice President of Regulatory Affairs and a director, and Kim Giffoni, our Executive Vice President of Foreign Sales and Investor Relations and a director, in an aggregate amount of \$440,000. The notes bear interest at a rate of 6% per annum and are payable on the earlier of December 1, 2012 or the consummation of the Company's initial public offering.

On May 4, 2011, the Company issued a promissory note to the Elizabeth Charuvastra and William Shell Family Trust dated July 27, 2006 and Amended September 29, 2006 (the "EC and WS Family Trust") in the amount of \$200,000. The note bears interest at a rate of 3.25% per annum and is payable on May 4, 2016.

On May 4, 2011, the Company issued a promissory note to the Giffoni Family Trust Dated September 26, 2008 (the "Giffoni Family Trust") in the amount of \$100,000. The note bears interest at a rate of 3.25% per annum and is payable on May 4, 2016.

On June 12, 2011, the Company, the Plan, William E. Shell, Elizabeth Charuvastra, Kim Giffoni, the EC and WS Family Trust and the Giffoni Family Trust entered into an agreement (the "Note Agreement") pursuant to which the Plan assigned the Plan Note to Dr. Shell, Ms. Charuvastra and Mr. Giffoni in an amount of \$100,000 each. Moreover, pursuant to the Note Agreement, each of Dr. Shell and Ms. Charuvastra assigned their respective interests in the Plan Note to the EC and WS Family Trust. In accordance with the Note Agreement, in connection with the assignments, the Plan Note was amended to extend the maturity date to December 15, 2015 and to reduce the interest rate from 8.0% per annum to 3.25% per annum. The Company issued new notes to each of the WC and WS Family Trust (in the amount of \$200,000) and to Mr. Giffoni (in the amount of \$100,000) to memorialize the amendments pursuant to the Note Agreement.

On June 18, 2011, the Company issued a promissory note to the EC and WS Family Trust in the amount of \$150,000. The note bears interest at a rate of 3.25% per annum and is payable on June 18, 2016.

August 19, 2011, the Company issued a promissory note to the EC and WS Family Trust in the amount of \$150,000. The note bears interest at a rate of 3.95% per annum and is payable on August 19, 2016. As an inducement to make this loan the EC and WS Family Trust was issued a warrant for 43,568 shares of Targeted Medical Pharma, Inc. common stock at an exercise price of \$3.38 per share. This warrant is dated November 7, 2011 and expires five years from date of issue.

On September 1, 2011, the Company issued a promissory note to the EC and WS Family Trust in the amount of \$80,000. The note bears interest at a rate of 3.95% per annum and is payable on September 1, 2016. As an inducement to make this loan the EC and WS Family Trust was issued a warrant for 23,237 shares of Targeted Medical Pharma, Inc. common stock at an exercise price of \$3.38 per share. This warrant is dated November 7, 2011 and expires five years from date of issue.

On September 23, 2011, the Company issued a promissory note to the EC and WS Family Trust in the amount of \$52,000. The note bears interest at a rate of 3.95% per annum and is payable on September 23, 2016. As an inducement to make this loan the EC and WS Family Trust was issued a warrant for 15,104 shares of Targeted Medical Pharma, Inc. common stock at an exercise price of \$3.38 per share. This warrant is dated November 7, 2011 and expires five years from date of issue.

On September 28, 2011, the Company issued a promissory note to the EC and WS Family Trust in the amount of \$200,000. The note bears interest at a rate of 3.95% per annum and is payable on September 28, 2016. As an inducement to make this loan the EC and WS Family Trust was issued a warrant for 58,091 shares of Targeted Medical Pharma, Inc. common stock at an exercise price of \$3.38 per share. This warrant is dated November 7, 2011 and expires five years from date of issue.

## **Note 5: Concentrations**

### **Major Vendor**

The Company purchases its medical food manufacturing services from a single source. The Company is dependent on the ability of this vendor to provide inventory on a timely basis. The loss of this vendor or a significant reduction in product availability and quality could have a material adverse effect on the Company. While the Company keeps at least a two months inventory on hand, it could take between two and nine months to set up and test a new supplier, leading to up to four months of product backorder. The Company's relationship with this vendor is in good standing and the expiration date of the contract is December 31, 2011.

### **Revenue Concentration**

TMP evaluates revenue concentrations on a quarterly basis.

Distributors purchase product from TMP and resell those products to dispensing physicians. Clients are those dispensing physicians to whom TMP sells product directly. TMP had one physician managed model client that represented 20%, and one distributor that represented 15% of gross sales for the quarter ended September 30, 2011 and 24% and 10%, respectively, of gross sales for the nine months ended September 30, 2011. Loss of these clients could significantly impact the Company's revenue.

## **Note 6: Recently Issued Accounting Pronouncements**

**Fair Value Measurements and Disclosures:** In January 2010, the FASB issued Accounting Standards Update No. 2010-06, topic 820, *Fair Value Measurements and Disclosures*, which amends existing fair value disclosure pronouncements. This update provides amendments to Subtopic 820-10 that require new disclosures as follows:

-Transfers in and out of Levels 1 and 2. A reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers.

-Activity in Level 3 fair value measurements. In the reconciliation for fair value measurements using significant unobservable inputs (Level 3), a reporting entity should present separately information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number).

This update also provides amendments to Subtopic 820-10 that clarify existing disclosures as follows:

-Level of disaggregation. A reporting entity should provide fair value measurement disclosures for each class of assets and liabilities. A class is often a subset of assets or liabilities within a line item in the statement of financial position. A reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities.

-Disclosures about inputs and valuation techniques. A reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. Those disclosures are required for fair value measurements that fall in either Level 2 or Level 3.

This update also includes conforming amendments to the guidance on employers' disclosures about postretirement benefit plan assets (Subtopic 715-20). The conforming amendments to Subtopic 715-20 change the terminology from major categories of assets to classes of assets and provide a cross reference to the guidance of Subtopic 820-10 on how to determine appropriate classes to present fair value disclosures.

This update is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years.

The adoption of this guidance did not have a material impact on the Company's financial statements.

Other Expenses: In December 2010, the FASB issued an accounting standard update that provides guidance on the recognition and presentation of the annual fee to be paid by pharmaceutical companies beginning on January 1, 2011 to the U.S. Treasury as a result of U.S. Healthcare Legislation. As a result of adopting this new standard, beginning on January 1, 2011, we will record the annual fee, if any, as an operating expense in our consolidated statements of income. The provisions of this standard will not have a significant impact on our consolidated financial statements.

Business Combinations: In December 2010, the FASB issued Accounting Standards Update No. 2010-29, topic 805, *Disclosure of Supplementary Pro Forma Information for Business Combinations*, to clarify diversity in practice of applying this topic. Paragraph 805-10-50-2(h) requires a public entity to disclose pro forma information for business combinations that occurred in the current reporting period. The disclosures include pro forma revenue and earnings of the combined entity for the current reporting period as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period. If comparative financial statements are presented, the pro forma revenue and earnings of the combined entity for the comparable prior reporting period should be reported as though the acquisition date for all business combinations that occurred during the current year had been as of the beginning of the comparable prior annual reporting period. The adoption of this guidance did not have a material impact on the Company's financial statements.

Fair Value Measurement and Disclosure: In May 2011, the FASB issued ASC Update 2011-04, "Fair Value Measurement: (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs." ASC Update 2011-04 amends current U.S. GAAP to create more commonality with IFRS by changing some of the wording used to describe requirements for measuring fair value and for disclosing information about fair value measurements. This update is effective for the first interim or annual reporting period beginning after December 15, 2011. The Company will begin application of ASC 2011-04 on January 1, 2012, which is not expected to have any effect on results of operations, financial position, and cash flows.

ASU 2011-05

#### **Note 7: Reorganization**

Pursuant to an Agreement and Plan of Reorganization (the "Merger Agreement"), by and among AFH Acquisition III, Inc. ("AFH"), TMP Merger Sub, Inc. ("TMP Merger Sub"), AFH Merger Sub, Inc. ("AFH Merger Sub"), AFH Holding and Advisory, LLC ("AFH Advisory"), Targeted Medical Pharma, Inc. ("Old TMP"), William E. Shell, MD, Elizabeth Charuvastra and Kim Giffoni, on January 31, 2010, TMP Merger Sub merged (the "TMP Merger") with and into Old TMP with Old TMP continuing as the surviving entity. Immediately after the TMP Merger, AFH merged (the "AFH Merger" and, together with the TMP Merger, the "Reorganization") with and into AFH Merger Sub with AFH continuing as the surviving entity (the surviving entity of the AFH Merger, the "Subsidiary"). As a result of the Reorganization, the Subsidiary is the Company's wholly-owned subsidiary.

Upon consummation of the TMP Merger, (i) each outstanding share of Old TMP common stock was exchanged for approximately 1.48 shares of AFH common stock and (ii) each outstanding TMP option, which was exercisable for one share of Old TMP common stock, was exchanged for an option exercisable for 1.48 shares of AFH common stock. Upon consummation of the AFH Merger, which occurred immediately upon consummation of the TMP Merger, each outstanding share of AFH common stock and each outstanding option to purchase AFH common stock were exchanged for one share of the Company's common stock and one option to purchase one share of the Company's common stock. As a result of the Reorganization, holders of Old TMP common stock and options received 18,308,576 of the Company's shares of common stock and options to purchase 566,424 of the Company's shares, or 83.89% of the Company's issued and outstanding common stock on a fully diluted basis. Former shareholders of AFH Advisory received 3,625,000 of the Company's shares of common stock.

The exchange of shares between TMP and AFH has been accounted for as a recapitalization of the companies. Pursuant to the accounting for a recapitalization, the historical carrying value of the assets and liabilities of TMP carried over to the surviving company. The reorganization was reflected in the statements as of the earliest period presented.

Pursuant to the Merger Agreement, the TMP Insiders agreed that up to 1,906,768 of the Company's shares of common stock they hold in the aggregate would be subject to forfeiture and cancellation to the extent that the Company fails to achieve \$22,000,000 in Adjusted EBITDA (the "Make Good Target") for the fiscal year ended December 31, 2011. For purposes of the Merger Agreement, "Adjusted EBITDA" means the Company's consolidated net earnings before interest expense, income taxes, depreciation, amortization and non-recurring expenses (as defined below) for the applicable period and as calculated on a consistent basis. Net earnings excludes, among other things, expenses incurred in connection with the Company's public offering of its common stock (including the preparation of the registration statement) and the preparation of the Current Report on Form 8-K related to the Reorganization.

Our general and administrative expenses include \$230,447 of professional fees and filing costs associated with this reorganization that were expensed in the three months ended March 31, 2011.

**Note 8: Recent Events**

On October 17, 2011, the Company, AFH Holding and Advisory, LLC, William E. Shell, MD, the Estate of Elizabeth Charuvastra and Kim Giffoni entered into Amendment No. 1 (the "Amendment") to the Merger Agreement. Pursuant to the Amendment, the "Make Good Period" was changed from the fiscal year ended December 31, 2011 to the twelve months following the consummation of a financing resulting in gross proceeds of \$20 million to the Company.

**NOTE 9: RESTATEMENT**

The Company restated its previously issued consolidated financial statements to reflect the items noted below. The effect of the restatement on results of operations and financial position as of and for the nine months ended September 30, 2010 were as follows:

	<b>As Previously Reported</b>	<b>Restated</b>
Accounts Receivable	\$ 19,822,771	\$ 16,434,796
Deferred Tax Asset - Short Term	207,500	300,944
<b>Total Current Assets</b>	<b>21,173,983</b>	<b>17,879,452</b>
Long-term accounts receivable	-	2,191,820
Property and Equipment	1,101,138	759,780
Intangible Assets	1,522,745	1,864,103
Accounts Payable and Accrued Expenses	442,079	837,694
Taxes Payable	-	3,403,536
Deferred Tax Liability - Current	-	965,832
<b>Total Current Liabilities</b>	<b>442,079</b>	<b>5,207,062</b>
Deferred Income Taxes	8,017,700	3,132,531
<b>Total Liabilities</b>	<b>8,459,779</b>	<b>8,339,593</b>
Product Sales	12,938,362	12,260,677
Cost of Services Sold	-	1,014,739
Research and Development	7,340	240,079
Selling, General and Administrative	4,789,787	4,572,995
Income Taxes	9,692	3,413,228
Deferred Income Tax (Benefit)	3,342,100	(670,681)
<b>Net Income</b>	<b>4,688,666</b>	<b>3,706,141</b>
Diluted Net Income per Share	\$ 0.38	\$ 0.30
Diluted Weighted Average Number of of Common Shares Outstanding	12,388,111	12,388,111

Reclassification of Cost of Services Sold from Selling, General and Administrative  
Reclassification of Research and Development costs from Selling, General and Administrative  
Reclassification of long-term accounts receivable from current accounts receivable  
Adjustment to record the change of tax status from cash to accrual  
Adjustment to record research and development tax credits  
Adjustment to record expenses originally reflected in fourth quarter 2010 properly  
in third quarter 2010

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

This Quarterly Report on Form 10-Q contains forward-looking statements. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. Such forward-looking statements include statements regarding, among others, (a) our expectations about possible business combinations, (b) our growth strategies, (c) our future financing plans, and (d) our anticipated needs for working capital. Forward-looking statements, which involve assumptions and describe our future plans, strategies, and expectations, are generally identifiable by use of the words "may," "will," "should," "expect," "anticipate," "approximate," "estimate," "believe," "intend," "plan," "budget," "could," "forecast," "might," "predict," "shall" or "project," or the negative of these words or other variations on these words or comparable terminology. This information may involve known and unknown risks, uncertainties, and other factors that may cause our actual results, performance, or achievements to be materially different from the future results, performance, or achievements expressed or implied by any forward-looking statements. These statements may be found in this Quarterly Report on Form 10-Q.

Forward-looking statements are based on our current expectations and assumptions regarding our business, potential target businesses, the economy and other future conditions. Because forward-looking statements relate to the future, by their nature, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. Our actual results may differ materially from those contemplated by the forward-looking statements as a result of various factors, including, without limitation, the risks outlined under "Risk Factors" in our registration statement on form S-1, changes in local, regional, national or global political, economic, business, competitive, market (supply and demand) and regulatory conditions and the following:

- Adverse economic conditions;
- inability to raise sufficient additional capital to operate our business;
- the commercial success and market acceptance of any of our products;
- the maintenance of our products in the FDA National Drug Code database;
- the timing and outcome of clinical studies;
- the outcome of potential future regulatory actions, including inspections from the FDA;
- unexpected regulatory changes, including unanticipated changes to workers compensation state laws and/or regulations;
- the expectation that we will be able to maintain adequate inventories of our commercial products;
- the results of our internal research and development efforts;
- the adequacy of our intellectual property protections and expiration dates on our patents and products;
- the inability to attract and retain qualified senior management and technical personnel;
- the potential impact, if any, of the Patient Protection and Affordable Care Act of 2010 and the Health Care and Education Reconciliation Act of 2010 on our business;
- our plans to develop other product candidates; and
- other specific risks referred to in the section entitled "Risk Factors" in our registration statement on form S-1 as amended.

We caution you therefore that you should not rely on any of these forward-looking statements as statements of historical fact or as guarantees or assurances of future performance. All forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q. We undertake no obligation to update any forward-looking statements or other information contained herein unless required by law.

## RECENT HIGHLIGHTS OF THE COMPANY

- Rapid growth of net sales and assets;
- FDA registration of convenience kits in the FDA National Drug Code Database;
- Addition of new distributors and sales representatives;
- Publication of the results of controlled clinical trials in peer-reviewed journals;
- Issuance of additional patents on our products;
- Growth of our CCPI subsidiary to support the dispensing activity of approximately 150 physician clients through the use of our *PDRx* software and the claims submission process on behalf of such physician clients relating to our products;
- Expansion of CCPI's claims submission automation and further upgrades of the *PDRx* software;
- Contracts with major pharmacy benefit managers to support point-of-care physician reimbursement

In addition, the Company received approval from Aspire IRB, an independent review board empowered by the Food and Drug Administration and the Department of Health and Human Services to review, approve and monitor research involving human participants, to conduct an open-label clinical outcomes study to assess the utility of Sentra AM® and Sentra PM® in the dietary management of post-traumatic stress disorder and Gulf War Illness. The Company began enrolling participants in the study throughout the United States on September 1, 2011.

**RESULTS OF OPERATIONS  
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010**

	Three Months Ended September 30, 2011	% of Sales	Three Months Ended September 30, 2010	% of Sales
Revenues:				
Product Sales	\$ 5,059,906	98.1%	\$ 4,728,512	96.2%
Service Revenue	99,505	1.9%	187,274	3.8%
Total Revenue	5,159,411	100.0%	4,915,786	100.0%
Cost of Product Sold				
Cost of Product Sold	334,157	6.5%	339,155	6.9%
Cost of Services Sold	419,361	8.1%	363,425	7.4%
Total Cost of Sales	753,518	14.6%	702,580	14.3%
Total Gross Profit	4,405,893	85.4%	4,213,206	85.7%
Operating Expenses:				
Research and Development	50,600	1.0%	75,085	1.5%
Selling, General and Administrative	3,113,310	60.3%	1,476,984	30.0%
Total Operating Expenses	3,163,910	61.3%	1,552,069	31.5%
Net Income before Other Income	1,241,983	24.1%	2,661,137	54.2%
Other Income and Expense:				
Interest Income (Expense)	(583,739)	-11.3%	-	0.0%
Investment Income	-	0.0%	9,162	0.2%
Total Other Income	(583,739)	-11.3%	9,162	0.2%
Net Income before Taxes	658,244	12.8%	2,670,299	54.4%
Income Taxes	980,319	19.0%	1,358,438	27.6%
Deferred Income Tax (Benefit)	(545,238)	-10.6%	(223,561)	-4.5%
Net Income before Comprehensive Income	223,163	4.4%	1,535,422	31.3%
Unrealized Gain or (Loss) on Investments	-	0.0%	(9,004)	-0.2%
Comprehensive Income	\$ 223,163	4.4%	\$ 1,526,418	31.1%

## ***Revenue***

Total revenue for the quarter ended September 30, 2011 increased \$243,625, or 5%, to \$5,159,411 from \$4,915,786 for the quarter ended September 30, 2010. Product revenue increased \$331,394, or 7%, from the prior year \$4,728,512 to \$5,059,906 primarily due to increased unit volume with existing distributors and physician clients as well as the addition of new distributors and physician clients. Service revenue decreased \$87,769 or 47%, from \$187,274 in the prior year to \$99,505 due to a decrease in the billing service fee percentage charged by CCPI, our billing and claims collection subsidiary. Starting with the quarter ended June 30, 2011 we decreased the CCPI fee charged to physician clients as a courtesy under our billing and collection services.

## ***Cost of Products Sold***

Our products are manufactured by a third party. Although product revenue increased by 7.0% for the quarter ended September 30, 2010 to the quarter ended September 30, 2011, the cost of products sold decreased \$4,998, or 1.5%, from \$339,155 to \$334,157 and the percentage of cost of products sold to product revenue decreased from 7.2% to 6.6% for the quarter ended September 30, 2011 compared to the quarter ended September 30, 2010. This decreased percentage is primarily due to a shift in our customer base to the higher margin physician managed model. The Physician Managed Model has a longer payment cycle and, accordingly, a lower rapid pay discount than our Distributor Direct Sales Model or Hybrid Model. The cost of goods sold to physician clients in the Physician Managed Model are therefore lower because they receive a small rapid pay discount on the AWP of the product. Cost of goods sold excludes depreciation since all production is outsourced to a third party and stored at an outsourced facility.

## ***Cost of Services Sold***

The cost of services sold increased \$55,936, or 15%, from \$363,425 for the quarter ended September 30, 2010 to \$419,361 for the quarter ended September 30, 2011 and the percentage cost of service sold to service revenue increased from 194% to 421% in those periods. These costs increased due to an increase in staff and higher depreciation and amortization costs. While expenses are recognized in the period incurred, our fee is recognized upon the collection of the claim on behalf of the physician client, which may occur in future periods. The larger increase in costs as a percentage of revenue was due to the increase in costs and the decrease in revenue resulting from a decrease in the average percentage fee charged on our billing and collection services contracts. Starting with the quarter ended June 30, 2011 we decreased the CCPI fee charged to physician clients as a courtesy under our billing and collection services.

## ***Operating Expenses***

We previously reported "Selling" and "Compensation" expenses as separate line items under operating expenses. These are now included in the line item "Selling, General and Administrative". This change was made to show only functional expense categories of expenses and to conform our financial statement reporting to pharmaceutical industry practices.

Operating expenses for the quarter ended September 30, 2011 increased \$1,611,841, or 104%, to \$3,163,910 from \$1,552,069 for the quarter ended September 30, 2010 and increased from 32% of revenue to 61% of revenue. Operating expenses consist of research and development expense, and selling, general and administrative expenses. Changes in these items are further described below.

## ***Research and Development Expense***

Research and development expenses for the quarter ended September 30, 2011 decreased \$24,485, or 33%, to \$50,600 from \$75,085 for the quarter ended September 30, 2010 primarily due to a lower level of research and development activity. The level of expense varies from year to year depending on the number of clinical trials that we have in progress. Our research and development costs are substantially less than conventional single-molecule pharmaceutical companies because the ingredients in our medical foods are Generally Recognized As Safe, or "GRAS" pursuant to the Federal Food, Drug and Cosmetic Act of 1938, as amended, and FDA rules promulgated thereunder. Accordingly, the safety studies, which are the most costly part of pharmaceutical development, do not have to be performed for our products. Each clinical study of 100 patients costs approximately \$300,000 to \$500,000 per study and usually includes prepayment of contract amounts. The studies are outsourced to clinical research organizations of ten sites per study to achieve independence and study sites must maintain data sets for many years. We record the prepayment as a prepaid expense and amortize the prepayment into research and development expense over the period of time the contracted research and development services are performed. Most contract research agreements include a ten year records retention and maintenance requirement. Typically, we expense 50% of the contract amount upon completion of the clinical trials and 50% over the remainder of the record retention requirements under the contract. While we don't currently have any formal ongoing clinical trials or studies in progress, we continue to research new potential products and may engage in future clinical trials or studies.

### ***Selling, General and Administrative Expense***

Selling, general and administrative expense, including facility expenses, professional fees, marketing, office expenses, travel and entertainment and provision for bad debts for the quarter ended September 30, 2011 increased \$1,636,326 or 111%, to \$3,113,310 from \$1,476,984 for the quarter ended September 30, 2010. The increase in general and administrative expense was primarily due to higher professional fees and filing costs associated with the filing of an S-1, associated expenses in connection with preparations to become a public company including \$152,498 for professional fees owed to AFH Holding and Advisory, LLC an affiliate of the Company, an increase in legal fees related to regulatory compliance and the accrual of \$675,000 in salary continuation death benefit to the estate of our former chairman Elizabeth Charuvastra who died on September 26, 2011.

### ***Current and Deferred Income Taxes***

Combined current and deferred income taxes for the quarter ended September 30, 2011 decreased \$699,796, or 62%, to \$435,081 from \$1,134,877 for the quarter ended September 30, 2010. The decrease in income taxes was due to the lower taxable income. The effective tax rate increased to 66.1% for the quarter ended September 30, 2011 compared with 42.5% for the quarter ended September 30, 2010. This increase is due to the non-deductibility for tax purposes of both the \$675,000 in salary continuation death benefit and \$409,542 in penalties for late filing and late payment of 2010 income tax liabilities.

Through December 31, 2009, we reported income to the Internal Revenue Service on the cash basis. Beginning with the year ended December 31, 2010, we reported our taxable income on the accrual basis as, for the quarter ended December 31, 2010, we surpassed the gross receipts threshold set in the Internal Revenue Code of 1986, as amended, which requires a switch from cash to accrual method. The impact of this change in reporting method is that more income taxes are current under the accrual method compared to deferred under the cash method.

Current income taxes for the quarter ended September 30, 2011 were \$980,319 compared to \$1,358,438 for the quarter ended September 30, 2010 and deferred income taxes were a benefit of \$545,238 for the quarter ended September 30, 2011 compared to a benefit of \$223,561 for the quarter ended September 30, 2010.

We filed our federal 2010 income tax return in April 2011 and our California 2010 income tax return in May 2011. We have been working with the IRS and the California Franchise Tax Board ("FTB") to arrange extensions of time and repayment schedules for prior year liabilities of approximately \$3,400,000 and \$950,000 respectively, plus related interest and penalties.

On July 22, 2011 we reached an informal agreement with the FTB that provides for payments as follows:

- \$50,000 by August 20, 2011
- \$100,000 by September 20, 2011
- \$100,000 by October 20, 2011
- Payment in full of all remaining prior year liabilities by December 1, 2011

During this time no action will be taken by the FTB to enforce collection provided that we make payments according to the schedule above.

Actual payments have been made as follows:

- \$50,000 on August 20, 2011
- \$100,000 on September 21, 2011
- \$25,000 on October 20, 2011

The reduced October payment was approved in advance by the FTB with the proviso that the previous commitment to pay all remaining prior year liabilities by December 1, 2011 be met.

The IRS filed a lien notice on July 14, 2011 that would have become effective July 29 if not appealed by July 28. On July 27, 2011 we filed an appeal including a proposed repayment schedule with the IRS. On August 9, 2011 we reached an informal agreement with the IRS in which it has agreed to enter into a formal agreement including a payment plan contingent on the Company making an initial payment on August 20, 2011 of \$100,000. Additional payments would be made as follows:

- \$150,000 by September 20, 2011
- \$200,000 by October 20, 2011
- Payment in full of all remaining prior year liabilities by November 20, 2011

During this time no action will be taken by the FTB to enforce collection provided that we make payments according to the schedule above.

Actual payments have been made as follows:

- \$100,000 on August 20, 2011
- \$200,000 on September 21, 2011
- \$100,000 on October 20, 2011

The reduced October payment was approved in advance by the IRS with the proviso that the previous commitment to pay all remaining prior year liabilities by November 20, 2011 be met.

While we expect to make required monthly payments between now and December 1, 2011, to both FTB and IRS, payments to the FTB and IRS of all remaining prior year liabilities are contingent on a successful public offering as discussed further herein.

***Net Income***

Net Income for the quarter ended September 30, 2011 decreased \$1,312,259 or 86%, to \$223,163 from \$1,535,422 for the quarter ended September 30, 2010. The decrease in net income was primarily due to a \$ 1,611,841 increase in operating expenses described above and the \$567,393 accrual of interest expense and penalties on our 2010 tax liabilities that offset the \$192,687 increase in gross profit.

**RESULTS OF OPERATIONS  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010**

	Nine Months Ended September 30,	% of Sales	Nine Months Ended September 30,	% of Sales
	<u>2011</u>		<u>2010</u>	
<b>Revenues:</b>				
Product Sales	\$ 15,357,960	97.0%	\$ 12,260,677	92.7%
Service Revenue	478,437	3.0%	963,788	7.3%
<b>Total Revenue</b>	<u>15,836,397</u>	<u>100.0%</u>	<u>13,224,465</u>	<u>100.0%</u>
<b>Cost of Sales:</b>				
Cost of Product Sold	876,090	5.5%	948,645	7.2%
Cost of Services Sold	1,089,823	6.9%	1,014,739	7.7%
<b>Total Cost of Sales</b>	<u>1,965,913</u>	<u>12.4%</u>	<u>1,963,384</u>	<u>14.9%</u>
<b>Total Gross Profit</b>	<u>13,870,484</u>	<u>87.6%</u>	<u>11,261,081</u>	<u>85.1%</u>
<b>Operating Expenses:</b>				
Research and Development	119,720	0.8%	240,079	1.8%
Selling, General and Administrative	8,965,207	56.6%	4,572,995	34.6%
<b>Total Operating Expenses</b>	<u>9,084,927</u>	<u>57.4%</u>	<u>4,813,074</u>	<u>36.4%</u>
<b>Net Income before Other Income</b>	<u>4,785,557</u>	<u>30.2%</u>	<u>6,448,007</u>	<u>48.7%</u>
<b>Other Income and Expense</b>				
Interest Income (Expense)	(594,139)	-3.8%	-	0.0%
Investment Income	7,638	0.0%	5,045	0.0%
<b>Total Other Income</b>	<u>(586,501)</u>	<u>-3.8%</u>	<u>5,045</u>	<u>0.0%</u>
<b>Net Income before Taxes</b>	<u>4,199,056</u>	<u>26.4%</u>	<u>6,453,052</u>	<u>48.7%</u>
<b>Income Taxes</b>	<u>2,627,680</u>	<u>16.6%</u>	<u>3,413,228</u>	<u>25.8%</u>
<b>Deferred Income Tax (Benefit)</b>	<u>(880,387)</u>	<u>-5.6%</u>	<u>(670,681)</u>	<u>-5.1%</u>
<b>Net Income before Comprehensive Income</b>	<u>2,451,763</u>	<u>15.4%</u>	<u>3,710,505</u>	<u>28.0%</u>
Unrealized Gain or (Loss) on Investments	-	0.0%	(4,364)	0.0%
Reclassification for losses included in Net Income	(3,209)	0.0%	-	0.0%
<b>Comprehensive Income</b>	<u>\$ 2,448,554</u>	<u>15.4%</u>	<u>\$ 3,706,141</u>	<u>28.0%</u>

## ***Revenue***

Total revenue for the nine months ended September 30, 2011 increased \$2,611,932, or 20%, to \$15,836,397 from \$13,224,465 for the nine months ended September 30, 2010. Product revenue increased \$3,097,283, or 25%, from the prior year \$12,260,677 to \$15,357,960 primarily due to increased unit volume with existing distributors and physician clients as well as the addition of new distributors and physician clients. Service revenue decreased \$485,351 or 50%, from \$963,778 in the prior year to \$478,437 due to a decrease in the billing service fee percentage by CCPI, our billing and claims collection subsidiary. Starting with the quarter ended June 30, 2011 we decreased the CCPI fee charged to physician clients as a courtesy under our billing and collection services.

## ***Cost of Products Sold***

The cost of products sold for the nine months ended September 30, 2011 decreased \$72,555, or 7.6%, from \$948,645 to \$876,090 and the percentage of cost of product sold to product revenue decreased from 7.7% to 5.7% for the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010. This decreased percentage is primarily due to a shift in our customer base to the higher margin physician managed model. The Physician Managed Model has a longer payment cycle and, accordingly, a lower rapid pay discount than our Distributor Direct Sales Model or Hybrid Model. The cost of goods sold to physician clients in the Physician Managed Model are therefore lower because they receive a small rapid pay discount on the AWP of the product. Cost of goods sold excludes depreciation since all production is outsourced to a third party and stored at an outsourced facility.

## ***Cost of Services Sold***

The cost of services sold for the nine months ended September 30, 2011 increased \$75,084, or 7.4%, from \$1,014,739 for the nine months ended September 30, 2010 to \$1,089,823 for the nine months ended September 30, 2011 and the percentage cost of service sold to service revenue increased from 105% to 228% in those periods. These costs increased primarily because we increased our collections staff to handle increased billing and collections processing activity and because revenue is not recognized until received. While expenses are recognized in the period incurred, our fee is recognized upon the collection of the claim on behalf of the physician client, which may occur in future periods. Starting with the quarter ended June 30, 2011 we decreased the CCPI fee charged to physician clients as a courtesy under our billing and collection services.

## ***Operating Expenses***

We previously reported "Selling" and "Compensation" expenses as separate line items under operating expenses. These are now included in the line item "Selling, General and Administrative". This change was made to show only functional expense categories of expenses and to conform our financial statement reporting to pharmaceutical industry practices.

Operating expenses for the nine months ended September 30, 2011 increased \$4,271,853 or 89%, to \$9,084,927 from \$4,813,074 for the nine months ended September 30, 2010 and increased from 36% of revenue to 57% of revenue. Operating expenses consist of research and development expense and selling, general and administrative expenses and changes in these items are further described below.

## ***Research and Development Expense***

Research and development expenses for the nine months ended September 30, 2011 decreased \$120,359, or 50%, to \$119,720 from \$240,079 for the nine months ended September 30, 2010 primarily due to a lower level of research and development activity. The level of expense varies from year to year depending on the number of clinical trials that we have in progress. Typically, we expense 50% of the contract amount upon completion of the clinical trials and 50% over the remainder of the record retention requirements under the contract. While we don't currently have any formal ongoing clinical trials or studies in progress, we continue to research new potential products and may engage in future clinical trials or studies.

## ***Selling, General and Administrative Expense***

Selling, general and administrative expense, including facility expenses, professional fees, marketing, office expenses, travel and entertainment and provision for bad debt for the nine months ended September 30, 2011 increased \$4,392,212 or 96%, to \$8,965,207 from \$4,572,995 for the nine months ended September 30, 2010. The increase in general and administrative expense was primarily due to higher professional fees and filing costs associated with the filing of an S-1, associated expenses in connection with preparations to become a public company including \$542,948 for professional fees owed to AFH Holding and Advisory, LLC an affiliate of the Company, an increase in legal fees related to regulatory compliance, and the accrual of \$675,000 in salary continuation death benefit to the estate of our former chairman Elizabeth Charuvastra who died on September 26, 2011.

### ***Current and Deferred Income Taxes***

Combined current and deferred income taxes for the nine months ended September 30, 2011 decreased \$995,254 or 36 %, to \$1,747,293 from \$2,742,547 for the nine months ended September 30, 2010. The decrease in income taxes was due to the lower taxable income. The effective tax rate was 41.6% for the quarter ended September 30, 2011 compared with 42.5% for the quarter ended September 30, 2010. Current income taxes for the nine months ended September 30, 2011 were \$2,627,680 compared to \$3,413,228 for the nine months ended September 30, 2010 and deferred income taxes were a benefit of \$880,387 for the nine months ended September 30, 2011 compared to a benefit of \$670,681 for the nine months ended September 30, 2010.

### ***Net Income***

Net Income for the nine months ended September 30, 2011 decreased \$1,258,742 or 34 %, to \$2,451,763 from \$3,710,505 for the nine months ended September 30, 2010. The decrease in net income was primarily due to a \$ 4,271,853 increase in operating expenses described above and the \$567,393 accrual of interest expense and penalties that offset the \$2,609,403 increase in gross profit.

### **FINANCIAL CONDITION**

Our working capital of \$16.7 million as of September 30, 2011 increased \$2.7 million from our December 31, 2010 working capital of \$14.0 million. The \$9.2 million increase in accounts receivable from \$22.9 million on December 31, 2010 to \$31.8 million on September 30, 2011 was a result of increased revenue of \$2.6 million in the nine months ended September 30, 2011 plus an increase in the collection cycle time on for the PMM business. This increase in accounts receivable was partially offset by a \$1,372,000 increase in notes payable to related parties (before discounts resulting from the issuance of warrants), an increase of \$2,143,348 in accounts payable and accrued expenses, an increase in taxes payable of \$2,191,996 and a \$1,036,756 decrease in cash and investments.

### ***Accounts Receivable***

See the “*Business Model*” discussion above and the discussions of “*Revenue Recognition*”, “*Long Term Accounts Receivable*”, and “*Allowance for Doubtful Accounts*” under the “*Critical Accounting Policies*” discussion below.

### **LIQUIDITY AND CAPITAL RESOURCES**

We have historically financed operations through cash flows from operations as well as equity transactions. During the nine months ended September 30, 2011 we borrowed \$1,372,000 from related parties. We expect additional liquidity from net income from operations and collections of accounts receivable in the fourth quarter of 2011. We also expect improved cash flow during the fourth quarter and during 2012 from the launch of several new lines of business which could result in expanded distribution of our products and could significantly add to revenues.

For the year ended December 31, 2010, we passed the threshold set by the tax code under which a corporation is required to switch from the cash method of reporting income to the accrual method. As of September 30, 2011, we recorded current income taxes payable of \$7,246,631 and current deferred income tax liabilities of \$1,288,278.

We filed our federal 2010 income tax return in April 2011 and our California 2010 income tax return in May 2011. We have been working with the IRS and the California Franchise Tax Board ("FTB") to arrange extensions of time and repayment schedules for prior year liabilities of approximately \$3,400,000 and \$950,000 respectively, plus related interest and penalties.

On July 22, 2011 we reached an informal agreement with the FTB that provides for payments as follows:

- \$50,000 by August 20, 2011
- \$100,000 by September 20, 2011
- \$100,000 by October 20, 2011
- Payment in full of all remaining prior year liabilities by November 20, 2011

During this time no action will be taken by the FTB to enforce collection provided that we make payments according to the schedule above.

Actual payments have been made as follows:

- \$50,000 on August 20, 2011
- \$100,000 on September 21, 2011
- \$25,000 on October 20, 2011

The reduced October payment was approved in advance by the FTB with the proviso that the previous commitment to pay all remaining prior year liabilities by December 1, 2011 be met.

The IRS filed a lien notice on July 14, 2011 that would have become effective July 29 if not appealed by July 28. On July 27, 2011 we filed an appeal including a proposed repayment schedule with the IRS. On August 9, 2011 we reached an informal agreement with the IRS in which it has agreed to enter into a formal agreement including a payment plan contingent on the Company making an initial payment on August 20, 2011 of \$100,000. Additional payments would be made as follows:

- \$150,000 by September 20, 2011
- \$200,000 by October 20, 2011
- Payment in full of all remaining prior year liabilities by December 1, 2011

During this time no action will be taken by the FTB to enforce collection provided that we make payments according to the schedule above.

Actual payments have been made as follows:

- \$100,000 on August 20, 2011
- \$200,000 on September 21, 2011
- \$100,000 on October 20, 2011

The reduced October payment was approved in advance by the IRS with the proviso that the previous commitment to pay all remaining prior year liabilities by November 20, 2011 be met.

While we expect to make required monthly payments between now and December 1, 2011, to both FTB and IRS, payments to the FTB and IRS of all remaining prior year liabilities are contingent on a successful public offering as discussed further herein.

On October 5, 2010, we entered into an engagement agreement with Sunrise Securities Corp. for a firm commitment underwriting of a \$20 million minimum to \$30 million maximum financing, with a 15% over-allotment, of our common stock. We filed a registration statement on Form S-1 with the Securities and Exchange Commission on February 14, 2011 relating to the Company's initial public offering, which registration statement has not been declared effective. We have since filed our first amendment on April 22, 2011 and a second amendment on July 14, 2011. We have also engaged in discussions with debt capital providers and are continuing with the due diligence process. Although there can be no assurance that we will be able to secure funding on terms acceptable to us, management believes that, based on the above factors, we will have adequate resources to fund our operations for the next twelve months.

Net cash used by operating activities for the nine months ended September 30, 2011 was \$1,996,529 compared to \$73,470 cash used by operating activities for the nine months ended September 30, 2010. Because our collection cycle for workers' compensation claims continues to be long, our increase in revenue translated into a large increase in accounts receivable and since the increase in accounts receivable of \$9,210,185 was larger than the net income of \$2,451,763, plus \$1,372,000 in borrowings and other adjustments and changes for the period, we experienced a reduction in cash and cash equivalents of \$792,340 in the nine months ended September 30, 2011. The increase in accounts receivable and potential collections by CCPI are expected to benefit cash flow in future years as we reach the point in the collection cycle where the previous revenue generated is collected (but we will likely incur a similar phenomenon in future years if revenues from worker's compensation increases dramatically). The collection cycle and cash flows may also be significantly affected if our mix of business can be shifted from longer collection cycles such as workers compensation to markets with shorter collection cycles such as private insurance or Medicare, nursing homes and online prescriptions.

Cash used by investing activities for the nine months ended September 30, 2011 was \$330,759 compared to cash used of \$20,754 for the nine months ended September 30, 2010. During the nine months ended September 30, 2011 and 2010, we incurred internal software development costs for our *PDRx* claims management and collection system of \$488,187 and \$96,583 respectively and purchased property and equipment of \$83,819 and \$332,748 respectively. Historically, capital expenditures have been financed by cash from operating activities. Net sales of investments were \$241,207 for the period ended September 30, 2011 and \$408,577 in the nine months ended September 30, 2010. All purchases were of highly liquid market investments.

The Company is planning for future growth that will require cash for additional investments that may exceed operating cash flow. We may also pursue expansion through acquisitions, joint ventures or other business combinations with other entities in order to expand our distribution network. We will continue to explore additional sources of debt and equity capital to fund these growth plans. We are currently in discussions and due diligence with prospective lenders for a bridge loan that would allow us to pay off our 2010 tax liabilities and other debt and to fund operations until the initial public offering takes place. There can be no assurance that we will be able to secure such funding on terms acceptable to us and that may limit our ability to grow.

### *Long term accounts receivable*

As of September 30, 2011, TMP maintained an accounts receivable balance for one physician client practice of \$2,656,857 in excess of the CCPI managed accounts receivable on behalf of that physician. The December 31, 2010 excess of accounts receivable over managed accounts receivable for this physician was \$2,982,119. The physician's billing and services agreement with CCPI provides for withholding one-third of all amounts due to the physician from CCPI collections on behalf of the physician until the balance is paid in full. This physician remains responsible for payment of invoices and continues to participate in the physician managed model. Management expects that these amounts will be collected as follows:

	<u>Current AR</u>	<u>Long Term AR</u>	<u>Interest @3%</u>	<u>Payment</u>
2011	\$ 98,687	\$ -	\$ 19,926	118,613
2012	435,159	173,677	70,719	679,555
2013	-	1,299,329	46,172	1,345,501
2014	-	650,005	6,818	656,823
	<u>\$ 533,846</u>	<u>\$ 2,123,011</u>	<u>\$ 143,635</u>	<u>2,800,492</u>

### *Allowance for doubtful accounts*

Trade accounts receivable are stated at the amount management expects to collect from outstanding balances. The carrying amounts of accounts receivable are reduced by an allowance for doubtful accounts that reflects management's best estimate of the amounts that will not be collected. We individually reviews all accounts receivable balances and based on an assessment of current creditworthiness, estimates the portion, if any, of the balance that will not be collected. We provide for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after we have used reasonable collection efforts will be written off.

Please refer to the discussion of long term accounts receivable above for information relating to another account with an accounts receivable balance in excess of the claims being managed. No allowance was created for the accounts receivable for the physician client practice in the discussion of long term accounts receivable.

### **OFF-BALANCE SHEET ARRANGEMENTS**

We have no off-balance sheet arrangements that have a material current effect, or that are reasonably likely to have a material future effect, on our financial condition, changes in financial condition, revenue or expenses, results of operations, liquidity, capital expenditures, or capital resources.

## CONTRACTUAL OBLIGATIONS

The Company leases its operating facility under a lease agreement expiring February 28, 2012 at the rate of \$12,500 per month and several smaller storage spaces rented on a month-to-month basis. The Company, as lessee, is required to pay for all insurance, repairs and maintenance and any increases in real property taxes over the lease period on the operating facility.

## CRITICAL ACCOUNTING POLICIES

### ***General:***

The accompanying unaudited financial statements include all adjustments of a normal and recurring nature which, in the opinion of Company's management, are necessary to present fairly the Company's financial position as of September 30, 2011, the results of its operations for the three months ended September 30, 2011 and 2010, and cash flows for the three months ended September 30, 2011 and 2010.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to the rules and regulations of the Securities and Exchange Commission. These condensed financial statements should be read in conjunction with the financial statements and related notes contained in the Company's Current Report on Form 8-K/A as amended on April 15, 2011 to the Securities and Exchange Commission for the year ended December 31, 2010. The results of operations and cash flows for the three months ended September 30, 2011 are not necessarily indicative of the results to be expected for the full year's operation.

### ***Principles of consolidation***

The consolidated financial statements include accounts of TMP and its wholly owned subsidiary, CCPI, collectively referred to as "the Company". All significant intercompany accounts and transactions have been eliminated in consolidation. In addition, TMP and CCPI share the common operating facility, certain employees and various costs. Such expenses are principally paid by TMP. Due to the nature of the parent and subsidiaries relationship, the individual financial position and operating results of TMP and CCPI may be different from those that would have been obtained if they were autonomous.

### ***Accounting estimates***

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### ***Revenue Recognition***

Please refer to the "*Business Model*" section above for discussion on revenue recognition.

### ***Allowance for doubtful accounts***

Under the direct sales to physician, direct sales to distributor and hybrid models, product is sold under terms that allow substantial discounts (40-83%) for payment within terms. With such substantial discounts, it is rare that an invoice is not paid within terms and no allowance is calculated because they are booked at the discounted amount in accounts receivable and revenue. Under the Company's physician managed model and hybrid model, CCPI performs billing and collection services on behalf of the physician client and deducts the CCPI fee and product invoice amount from the reimbursement received by CCPI on behalf of the physician client before the reimbursement is forwarded to the physician client. Extended collection periods are typical in the workers' compensation industry with payment terms extending from 45 days up to four years. The physician remains personally liable for purchases of product from TMP and, during this long collection cycle, TMP retains a security interest in all products sold to the physician along with the claims receivable that result from sales of the products. CCPI maintains an accounting of all managed accounts receivable on behalf of the physician and regularly reports to the physician. Bad debts are recognized on the allowance method based on historical experience, contractual payment terms and management's evaluation of outstanding accounts receivable. Included in this analysis is a comparison of the total amount of all invoices due from the physician to TMP for products purchased to all outstanding claims in the managed accounts receivable on behalf of the physician. To the extent that the amount due from the physician to TMP for product purchases exceeds the expected collectible value of outstanding claims in the managed accounts receivable, management takes additional measures including withholding additional amounts due from monthly residual payments to physicians under the billing and collection services agreement. To the extent that these efforts are unsuccessful, the Company may seek legal action for payment directly from the physician under the contract, although the Company has not yet pursued this type of action.

In addition to the bad debt recognition policy above, it is also TMP's policy to write down uncollectible loans and trade receivables when the payer is no longer in existence, is in bankruptcy or is otherwise insolvent. In such instances our policy is to reduce accounts receivable in the uncollectible amount and to proportionally reduce the allowance for doubtful accounts.

### ***Inventory valuation***

Inventory is valued at the lower of cost (first in, first out) or market and consists primarily of finished goods.

### ***Impairment of long-lived assets***

The long-lived assets held and used by the Company are reviewed for impairment no less frequently than annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In the event that facts and circumstances indicate that the cost of any long-lived assets may be impaired, an evaluation of recoverability is performed. No asset impairment was recorded at September 30, 2011 or at December 31, 2010.

### ***Intangible assets***

Indefinite lived intangible assets are measured for impairment at least annually, and more often when events indicate that an impairment may exist. Intangible assets with finite lives, including patents and internally developed software (primarily the Company's *PDRx* software), are stated at cost and are amortized over their useful lives. Patents are amortized on a straight line basis over their statutory lives, usually fifteen to twenty years. Internally developed software is amortized over three to five years. Intangible assets with indefinite lives are tested annually for impairment, during the fiscal fourth quarter and between annual periods, if impairment indicators exist, and are written down to fair value as required.

### ***Fair value of financial instruments:***

The Company's financial instruments are accounts receivable, accounts payable, and notes payable. The recorded values of accounts receivable, accounts payable, and notes payable approximate their values based on their short term nature.

### ***Income taxes***

The Company determines its income taxes under the asset and liability method. Under the asset and liability approach, deferred income tax assets and liabilities are calculated and recorded based upon the future tax consequences of temporary differences by applying enacted statutory tax rates applicable to future periods for differences between the financial statements carrying amounts and the tax basis of existing assets and liabilities. Generally, deferred income taxes are classified as current or non-current in accordance with the classification of the related asset or liability. Those not related to an asset or liability are classified as current or non-current depending on the periods in which the temporary differences are expected to reverse. Valuation allowances are provided for significant deferred income tax assets when it is more likely than not that some or all of the deferred tax assets will not be realized.

The Company recognizes tax liabilities by prescribing a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized, and also provides guidance on de-recognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. To the extent that the final tax outcome of these matters is different than the amount recorded, such differences impact income tax expense in the period in which such determination is made. Interest and penalties, if any, related to accrued liabilities for potential tax assessments are included in income tax expense.

### ***Stock-Based Compensation***

The Company accounts for stock option awards in accordance with ASC 718. Under ASC 718, compensation expense related to stock-based payments is recorded over the requisite service period based on the grant date fair value of the awards. Compensation previously recorded for unvested stock options that are forfeited is reversed upon forfeiture. The Company uses the Black-Scholes option pricing model for determining the estimated fair value for stock-based awards. The Black-Scholes model requires the use of assumptions which determine the fair value of stock-based awards, including the option's expected term and the price volatility of the underlying stock.

The Company's accounting policy for equity instruments issued to consultants and vendors in exchange for goods and services follows the provisions of ASC 505-50. Accordingly, the measurement date for the fair value of the equity instruments issued is determined at the earlier of (i) the date at which a commitment for performance by the consultant or vendor is reached or (ii) the date at which the consultant or vendor's performance is complete. In the case of equity instruments issued to consultants, the fair value of the equity instrument is recognized over the term of the consulting agreement. Stock-based compensation is a non-cash expense because we settle these obligations by issuing shares of our common stock from our authorized shares instead of settling such obligations with cash payments.

### ***Income Per Share***

The Company utilizes FASB ASC 260, "Earnings per Share". Basic income (loss) per share is computed by dividing income (loss) available to common shareholders by the weighted-average number of common shares outstanding. Diluted income (loss) per share is computed similar to basic income (loss) per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. Common equivalent shares are excluded from the computation if their effect is anti-dilutive.

The following potential common shares have been excluded from the computation of diluted net income (loss) per share for the periods presented where the effect would have been anti-dilutive:

Options outstanding	291,347	258,809
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### ***Research and development***

Research and development costs are expensed as incurred. In instances where we enter into agreements with third parties for research and development activities we may prepay fees for services at the initiation of the contract. We record the prepayment as a prepaid asset and amortize the asset into research and development expense over the period of time the contracted research and development services are performed. Most contract research agreements include a ten year records retention and maintenance requirement. Typically, we expense 50% of the contract amount within the first two years of the contract and 50% over the remainder of the record retention requirements under the contract based on our experience on how long the clinical trial service is provided.

### **Reclassification**

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation in the current-year financial statements.

### **Item 3. Quantitative and Qualitative Disclosure About Market Risk**

We are a smaller reporting company and therefore, we are not required to provide information required by this Item.

### **Item 4. Controls and Procedures.**

#### *Evaluation of Disclosure Controls and Procedures*

As of the end of the period covered by this Quarterly Report, the Company's management, with the participation of the Company's Chief Executive Officer and Interim Chief Financial Officer (the "Certifying Officer"), conducted evaluations of the Company's disclosure controls and procedures. As defined under Sections 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the term "disclosure controls and procedures" means controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including the Certifying Officers, to allow timely decisions regarding required disclosures. Based on this evaluation, the Certifying Officers have concluded that the Company's disclosure controls and procedures were not effective to ensure that material information is recorded, processed, summarized and reported by management of the Company on a timely basis in order to comply with the Company's disclosure obligations under the Exchange Act and the rules and regulations promulgated thereunder.

### *Changes in Internal Control over Financial Reporting*

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Securities Exchange Act of 1934, as amended) during the fiscal quarter ended September 30, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

### *Limitations on the Effectiveness of Internal Controls*

Readers are cautioned that our management does not expect that our disclosure controls and procedures or our internal control over financial reporting will necessarily prevent all fraud and material error. An internal control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any control design will succeed in achieving its stated goals under all potential future conditions. Over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

None.

### **Item 1A. Risk Factors.**

We are a smaller reporting company and therefore, we are not required to provide information required by this Item.

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

None.

### **Item 3. Defaults Upon Senior Securities.**

None.

### **Item 4. (Removed and Reserved).**

### **Item 5. Other Information**

None.

**Item 6. Exhibits.**

<b><u>Number</u></b>	<b><u>Description</u></b>
31.1	Certification of Chief Executive Officer Pursuant To Sarbanes-Oxley Section 302
31.2	Certification of Chief Financial Officer Pursuant To Sarbanes-Oxley Section 302
32.1	Certification Pursuant To 18 U.S.C. Section 1350 (*)

101.ins*	XBRL Instance Document
101.xsd*	XBRL Taxonomy Extension Schema Document
101.cal*	XBRL Taxonomy Calculation Linkbase Document
101.def*	XBRL Taxonomy Definition Linkbase Document
101.lab*	XBRL Taxonomy Label Linkbase Document
101.pre*	XBRL Taxonomy Presentation Linkbase Document
*Furnished. Not filed. Not incorporated by reference. Not subject to liability.	

\* A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized on the 14<sup>th</sup> day of November, 2011.

**TARGETED MEDICAL PHARMA, INC.**

By: /s/ William E. Shell, MD

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William E. Shell, MD  
Chief Executive Officer

## EXHIBIT INDEX

<b><u>Number</u></b>	<b><u>Description</u></b>
31.1	Certification of Chief Executive Officer Pursuant To Sarbanes-Oxley Section 302
31.2	Certification of Interim Chief Financial Officer Pursuant To Sarbanes-Oxley Section 302
32.1	Certification Pursuant To 18 U.S.C. Section 1350 (*)
101.ins*	XBRL Instance Document
101.xsd*	XBRL Taxonomy Extension Schema Document
101.cal*	XBRL Taxonomy Calculation Linkbase Document
101.def*	XBRL Taxonomy Definition Linkbase Document
101.lab*	XBRL Taxonomy Label Linkbase Document
101.pre*	XBRL Taxonomy Presentation Linkbase Document

\*Furnished. Not filed. Not incorporated by reference. Not subject to liability.

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**CERTIFICATION**

Pursuant to 18 U.S.C. Section 1350,

As adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, William E. Shell, MD, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Targeted Medical Pharma, Inc. (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Dated: November 14, 2011

Signature: /s/ William E. Shell, MD

William E. Shell, MD

Principal Executive Officer and Principal Financial Officer

**CERTIFICATION**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  
(subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), each of the undersigned officers of Targeted Medical Pharma, Inc., a Delaware corporation (the "Company"), does hereby certify, to such officer's knowledge, that:

The Quarterly Report on Form 10-Q for the quarter ended September 30, 2011 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 14, 2011

By: /s/ William E. Shell, MD

William E. Shell, MD

Principal Executive Officer and Principal Financial Officer

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