As filed with the Securities and Exchange Commission on February 14, 2011

Registration No.: 333-

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

Form S-1

REGISTRATION STATEMENT
UNDER THE SECURITIES ACT OF 1933

TARGETED MEDICAL PHARMA, INC.

(Exact name of registrant as specified in its charter)

Delaware	**2834**	**20-5863618**
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

2980 Beverly Glen Circle
Suite 301
Los Angeles, California 90077
(310) 474-9809

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

William E. Shell, MD
Chief Executive Officer
2980 Beverly Glen Circle
Suite 301
Los Angeles, California 90077
(310) 474-9809

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

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions 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 ☐ (Do not check if smaller reporting company) Smaller reporting company ☒

Calculation of Registration Fee

Title of Each Class of Securities to be Registered	Proposed Maximum Aggregate Offering Price[1]	Amount of Registration Fee[2]
Common Stock, par value $0.001 per share (3)	$30,000,000	$3,483.00
Common Stock, par value $0.001 per share (4)	$87,734,304	$10,186.00
Total	**$117,734,304**	**$13,669.00**

(1) Estimated solely for purposes of calculating the registration fee pursuant to Rule 457(o) under the Securities Act of 1933, as amended.

(2) Calculated pursuant to Rule 457(o) based on an estimate of the proposed maximum aggregate offering price.

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

TABLE OF CONTENTS

EXPLANATORY NOTE

This registration statement contains two forms of prospectus, as set forth below.

- *Public Offering Prospectus*. A prospectus to be used for the initial public offering by the registrant of $30,000,000 of common stock (the "Public Offering Prospectus") through the underwriters named on the cover page of the Public Offering Prospectus.
- *Selling Securityholder Prospectus*. A prospectus to be used in connection with the potential resale by certain selling securityholders of up to an aggregate of 21,933,576 shares of the Registrant's common stock (the "Selling Securityholder Prospectus").

The Public Offering Prospectus and the Selling Securityholder Prospectus will be identical in all respects except for the following principal points:

- they contain different front covers;
- they contain different tables of contents;
- they contain different Use of Proceeds sections;
- a Shares Registered for Resale section is included in the Selling Securityholder Prospectus;
- a Selling Securityholders section is included in the Selling Securityholder Prospectus;
- the Underwriting section from the Public Offering Prospectus is deleted from the Selling Securityholder Prospectus and a Plan of Distribution section is inserted in its place;
- the Legal Matters section in the Selling Securityholder Prospectus deletes the reference to counsel for the underwriters; and
- they contain different back covers.

The Registrant has included in this registration statement, after the financial statements, a set of alternate pages to reflect the foregoing differences between the Selling Securityholder Prospectus and the Public Offering Prospectus.

TABLE OF CONTENTS

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

PRELIMINARY PROSPECTUS SUBJECT TO COMPLETION, DATED FEBRUARY 14, 2011

TARGETED MEDICAL PHARMA, INC.

Shares

This is the initial public offering of shares of our common stock, $0.001 par value.

Currently, no public market exists for our securities. We intend to apply to have our shares of common stock listed on the Nasdaq Capital Market under the symbol " " on or promptly after the date of this prospectus. No assurance can be given that such listing will be approved.

Investing in our common stock involves a high degree of risk. You should carefully consider the matters discussed under the section entitled "Risk Factors" beginning on page 6 of this prospectus.

	Per Share	Total
Public offering price[1]		
Underwriter discounts and commissions ()		
Proceeds to us (before expenses)		

(1) The offering price to the public will be determined by negotiation between Targeted Medical Pharma and Sunrise Securities Corp., the underwriters' representative.

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

This is a firm commitment underwriting. The underwriters expect to deliver the shares of common stock to purchasers on or prior to , 2011.

SUNRISE SECURITIES CORP.

The date of this prospectus is , 2011.

TARGETED MEDICAL PHARMA, INC.

TABLE OF CONTENTS

PROSPECTUS SUMMARY	1
THE OFFERING	5
RISK FACTORS	6
CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS	23
USE OF PROCEEDS	25
DILUTION	27
DIVIDEND POLICY	28
CAPITALIZATION	28
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	29
BUSINESS	39
MANAGEMENT	72
PRINCIPAL STOCKHOLDERS	85
CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS	87
DESCRIPTION OF SECURITIES	88
UNDERWRITING	91
LEGAL MATTERS	94
EXPERTS	94
WHERE YOU CAN FIND ADDITIONAL INFORMATION	94
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS	F-1

You should rely only on the information contained in this prospectus. We have not, and the underwriters have not, authorized anyone to provide you with information different from or in addition to that contained in this prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. We are offering to sell, and are seeking offers to buy, shares of common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of the common stock. Our business, financial conditions, results of operations and prospects may have changed since that date.

We obtained statistical data, market data and other industry data and forecasts used throughout this prospectus from publicly available information. While we believe that the statistical data, market data and other industry data and forecasts are reliable, we have not independently verified the data, and we do not make any representation as to the accuracy of the information.

PROSPECTUS SUMMARY

This summary highlights information contained throughout this prospectus and is qualified in its entirety by reference to the more detailed information and financial statements included elsewhere herein. This summary may not contain all of the information that may be important to you. You should assume that the information appearing in this prospectus is accurate only as of the date on the front cover of this prospectus. Our business, financial condition, results of operations and prospects may have changed since that date. Before making an investment decision, you should read carefully the entire prospectus, including the information under "Risk Factors" beginning on page 6 and our financial statements and related notes thereto. Unless the context otherwise requires or indicates, when used in this prospectus,

- *references to "we," "our," "us," "the Company" and "TMP" refer to Targeted Medical Pharma, Inc. and its subsidiaries;*
- *references to "TMP Insiders" refers to William E. Shell, MD, Elizabeth Charuvastra and Kim Giffoni;*
- *references to "Reorganization"* refers to the merger by and between Targeted Medical Pharma, Inc. and AFH Acquisition III, Inc. and its subsidiaries, pursuant to which we became a publicly-held reporting company.

Our Business

Targeted Medical Pharma, Inc. is a specialty pharmaceutical company that develops and commercializes nutrient- and pharmaceutical-based therapeutic systems. We create, manufacture and sell a line of patented prescription medical food products that are currently distributed in the United States through a network of distributors and directly to physicians who dispense medical foods and other pharmaceutical products through their office practices. Our proprietary patented technology uses a five component system to allow uptake and use of important neurotransmitter precursors to produce the neurotransmitters that control autonomic nervous system function, such as sleep and pain perception. The technology addresses neuron specificity and elimination of attenuation or tolerance that is characterized by the need for increased dosage. The combination of the neurotransmitters and their precise proportions allows for a wide range of products.

We have created and market nine core medical foods and 47 convenience-packed therapeutic systems consisting of a medical food and a generic pharmaceutical, which physicians can prescribe and dispense together. Our convenience-packed therapeutic systems address pain syndromes, sleep disorders, hypertension, viral infections and metabolic syndromes. We developed these convenience-packed products at the request of physician clients to allow for the administration of the appropriate FDA-approved dose of a drug co-administered with a medical food that optimizes the use of the approved drug product under its approved labeling. Most often, the optimal dose co-administered with a medical food is the lowest FDA-approved and recommended dose that maintains the efficacy and reduces the side effects of the drug. Clinical practice, observation studies and independent controlled clinical trials have shown that co-administration of a pharmaceutical with a medical food product allows the physician to select the optimal dose of both agents. All convenience-packed drugs are within the FDA-approved label dose. These convenience packs are registered in the FDA National Drug Code (NDC) database and all convenience-packed products have been routinely reimbursed by third party payers.

The market for the sale of prepackaged medications to physicians for on-site point-of-care dispensing includes medications distributed for general medical practice, occupational health, workers compensation, urgent care and pain clinics. We distribute our products through an internal sales staff and a network of independent distributors to approximately 940 physicians or physician groups in the United States. On-site dispensing offers healthcare providers the opportunity to improve financial performance by adding an incremental source of revenue and reducing expenses related to prescription transmission, communications with pharmacists and billing and processing. From a patient's perspective, the dispensing of medications at the point-of-care provides an increased level of convenience, privacy and treatment compliance. Patients who do not wish to receive medicines dispensed at the point-of-care are able to access our products through selected pharmacies who order product directly from us.

We support our physician clients with a proprietary pharmacy claims processing service specifically designed for billing and collecting insurance reimbursement from private insurance, workers compensation and Medicare for our proprietary prescription-only products, therapeutic systems, generic and branded drugs. A wholly-owned subsidiary provides this service to physician offices for the specific purpose of optimizing insurance reimbursement for dispensed pharmaceutical products. We have developed a proprietary billing system based on recent advances in Cloud computing. We provide each client with a "Thin Client" device directly connected to our servers to give real time information on dispensing activity. This system also allows information to be delivered directly to us for purposes of future sales and educational content.

The 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 (we are the surviving entity of the TMP Merger). 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 our 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 our common stock and one option to purchase one share of our common stock. As a result of the Reorganization, holders of Old TMP common stock and options received 18,308,576 of our shares of common stock and options to purchase 566,424 of our shares, or 83.89% of our issued and outstanding common stock on a fully diluted basis.

Pursuant to the Merger Agreement, the TMP Insiders agreed that up to 1,906,768 of our shares of common stock they hold in the aggregate would be subject to forfeiture and cancellation to the extent that we fail 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 our 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 this offering (including the preparation of the registration statement of which this prospectus is a part) and the preparation of the Current Report on Form 8-K related to the Reorganization.

The Reorganization resulted in a change in control of our company from Mr. Amir F. Heshmatpour to the former stockholders of Old TMP. In connection with the change in control, William E. Shell, MD, Kim Giffoni, Maurice J. DeWald, Donald J. Webster, Arthur R. Nemiroff and John H. Bluher were appointed to our Board of Directors. Dr. Shell was appointed our Chief Executive Officer and Chief Scientific Officer, Ms. Charuvastra was appointed our Chairman and Vice President of Regulatory Affairs, Mr. Giffoni was appointed our Executive Vice President of Foreign Sales and Investor Relations, Mr. Steve B. Warnecke was appointed our Chief Financial Officer and Mr. Amir Blachman was appointed our Vice President of Strategy and Operations. Mr. Heshmatpour, an officer and director of AFH prior to the consummation of the Merger Agreement, resigned from these positions at the time the transaction was consummated. Ms. Charuvastra was elected to AFH's Board of Directors on December 9, 2010. Following the Reorganization, she continued as one of our directors.

Risk Factors

Investing in our securities involves a high degree of risk. As an investor you should be able to bear a complete loss of your investment. You should carefully consider the information set forth in the section entitled "*Risk Factors*" immediately following this prospectus summary.

Company Information

Our executive offices are located at 2980 Beverly Glen Circle, Suite 301, Los Angeles, California 90077 and our telephone number at this location is (310) 474-9809. Our website address is *wwwtargetedmedicalpharma.com*. The information on our website is not part of this prospectus.

SUMMARY FINANCIAL INFORMATION

In the table below, we provide you with historical selected consolidated financial data for the two years ended December 31, 2009 and 2008, derived from our audited consolidated financial statements included elsewhere in this prospectus. We also provide consolidated financial data for, and as of the end of, the third fiscal quarters of 2010 and 2009, derived from our unaudited consolidated financial statements included elsewhere in this prospectus. Historical results are not necessarily indicative of the results that may be expected for any future period. When you read this historical selected financial data, it is important that you read along with it the historical consolidated financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this prospectus.

Consolidated Statements of Operations (in thousands)

	For the Nine Months Ended September 30,		For the Year Ended December 31,	
	2010	2009	2009	2008
	(unaudited)			
Revenue				
Product Sales	$ 12,938	$ 8,524	$ 11,494	$ 11,802
Service Revenue	964	501	705	359
Total Revenue	13,902	9,025	12,199	12,161
Cost of Product Sales	948	965	1,257	2,119
Gross Profit	12,954	8,060	10,942	10,042
Research and Development	7	299	22	9
Selling Expenses	117	77	164	232
General and Administrative	4,790	3,631	4,997	5,147
Total Operating Expenses	4,914	4,007	5,183	5,388
Net Income Before Other Income and Taxes	8,040	4,053	5,759	4,654
Other Income	5	—	7	1
Income Taxes	(3,352)	(1,528)	(1,783)	(1,262)
Net Income	$ 4,693	$ 2,525	$ 3,983	$ 3,393
Basic and Diluted Earnings Per Share	$ 0.38	$ 0.20	$ 0.32	$ 0.27
Weighted Average Number of Shares	12,388	12,383	12,383	12,341

TABLE OF CONTENTS

	September 30, 2010	December 31, 2009	December 31, 2008
	(unaudited)		
Balance Sheet (in thousands)			
Cash and Investments	365	862	813
Inventory	336	353	528
Accounts Receivable	19,823	11,787	8,113
Other Current Assets	650	641	704
Total Current Assets	21,174	13,643	10,158
Property and Equipment	1,101	857	203
Intangible Assets	1,523	1,502	137
Other Assets	427	112	38
Total Assets	24,225	16,114	10,536
Accounts Payable and Accrued Expenses	442	486	659
Deferred Income Taxes	8,018	4,676	2,933
Total Liabilities	8,460	5,162	3,592
Common Stock and Paid in Capital	3,200	3,076	3,049
Retained Earnings	12,565	7,876	3,895
Total Shareholders' Equity	15,765	10,952	6,944
Total Liabilities and Equity	24,225	16,114	10,536

TABLE OF CONTENTS

THE OFFERING

Securities offered:	Shares of common stock
Offering Price:	$
Proposed NASDAQ Capital Market symbols:	“ ”
Use of Proceeds:	Our current estimate of the use of the net proceeds of this offering, which we expect to be approximately $27,689,000, is as follows: $10,689,000 for working capital, $3,000,000 for sales and marketing, $3,000,000 for distribution development/rollup, $2,000,000 for facility infrastructure, $2,000,000 for management expansion, $2,000,000 for scientific education, $1,500,000 for technical infrastructure, $1,500,000 for research and development, $1,000,000 for regulatory compliance, $500,000 for intellectual property and $500,000 for scientific advisory board. We will, however, have broad discretion over the use of proceeds of this offering and the estimates may change over time.
Risk Factors:	See “*Risk Factors*” and other information included in this prospectus for a discussion of factors you should carefully consider before deciding to invest in our common stock.

Except as otherwise set forth in this prospectus, the share information above and elsewhere in this prospectus is based on 21,933,576 shares of common stock outstanding on February 14, 2011.

The share information in this prospectus does not include:

- 1,066,424 shares of common stock issuable upon the exercise of stock options outstanding as of February 14, 2011 at a weighted average exercise price of $2.31 per share; and
- shares of common stock issuable upon exercise of warrants issued to the underwriters in connection with this offering with an exercise price of $.

RISK FACTORS

An investment in our common stock involves a high degree of risk. You should carefully consider the risk factors described below together with all of the other information contained in this prospectus, including our consolidated financial statements and the notes thereto, before deciding whether to invest in shares of our common stock. Each of these risks could have a material adverse effect on our business, operating results, financial condition and/or growth prospects. As a result, you might lose all or part of your investment. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our operations.

Risks Related to Our Business

Our products and facility are subject to federal laws and regulations. Failure to comply with any law or regulation could result in penalties and restrictions on our ability to manufacture and distribute products. If any such action were to be imposed, it could have a material adverse effect on our business and results of operations.

Although medical foods do not require pre-market approval by the FDA, manufacturers of medical foods must be registered with the FDA under a provision promulgated by the Public Health Security and Bioterrorism Preparedness and Response Act of 2002 (the Bioterrorism Act). Manufacturers of medical foods are subject to periodic inspection by the FDA. Our medical foods have been reviewed by the FDA on several occasions. The inspection process includes a review of our facility, sampling of our products and a review of labeling and other patient and promotional materials related to our products. The most recent routine facilities inspection by the Southwest Regional Office of the FDA was conducted in January 2011. A formal report will be issued by the agency in four to six months after laboratory analysis of product samples is completed. No deficiencies in the facility or operations were noted during the inspection. Even if the results of the current inspection are positive, there is no certainty that the FDA will favorably review new medical food products we introduce or our facilities in the future. If the outcome of the inspection is negative or if we fail to comply with any law or regulation, we could be subject to penalties and restrictions on our ability to manufacture and distribute products. Any such action may result in a material adverse effect on our business and results of operations. For a more complete discussion of the laws and regulations to which we are subject, please see the section of this prospectus titled "*Business — Government Regulation*".

In April 2010 the FDA sent us a warning letter about our convenience-packed products. As a result of objections made by the FDA, we have removed reduced drug dosage claims in our patient materials and promotional materials. There can be no assurance that the FDA will not raise additional objections with respect to our products. Any such action could have a material adverse effect on our business, operations and revenues.

One of our divisions, Physician Therapeutics (PTL), received a warning letter from the FDA on April 8, 2010 related to our convenience-packed products. To facilitate discussions with the FDA, we voluntarily stopped providing our physician clients with completed convenience packs. We responded to the FDA on April 24, 2010 and met with the FDA on August 3, 2010. We then corresponded with the FDA on August 24, 2010 and September 13, 2010 with a plan to address the FDA's concerns about our convenience-packed products. We agreed to remove from our patient materials and promotional materials a claim that the co-administration of our medical foods with the prescription drug could reduce the dose of the prescription drug. We further agreed to refrain from providing any materials that would promote any off-label use of a prescription drug, including both indication and dose of the drug. In the future, the FDA could raise additional objections about our products. As a result of these objections, we could be required to make further modifications in accordance with the FDA's requests. Any such action could have a material adverse effect on our business, operations or results.

There is no certainty that our products will continue to be reimbursed by private insurance, Medicare and workers compensation insurers. If these entities do not continue to reimburse for the costs of our products, this could have a material adverse effect on the results of our operations.

In order for private insurance, Medicare and workers compensation insurers to reimburse the cost of our products, we must, among other things, maintain registration of the products in the National Drug Code (NDC) registry, maintain our relabeler license, maintain our company formulary approval by Pharmacy Benefits Managers and maintain recognition by insurance companies and the Center For Medical Services (CMS) of the Department of Health and Human Services that our products are covered by various agencies. There is no certainty that we will be able to maintain these requirements for insurance reimbursement of our products. If doctors do not continue to be reimbursed for dispensing our products, they may choose not to purchase them and our revenues may be significantly reduced.

There is no guaranty that our products will remain registered in the NDC registry or in commercial databases. If we are unable to maintain our registration, the results of our operations could be materially and adversely affected.

The Drug Listing Act of 1972 requires registered drug establishments to provide the FDA with a current list of all drugs manufactured, prepared, propagated, compounded, or processed by it for commercial distribution. Drug products are identified and reported using a unique, three-segment number, called the National Drug Code (NDC), which is a universal product identifier for human drugs.

In order to obtain insurance reimbursement, products must be registered by their NDC numbers. Manufacturers of drugs, devices and biologics have traditionally registered their products in one or more of the NDC databases in order to be reimbursed by third party payers. The submission of establishment registration and drug listing forms has been completed exclusively on paper until recently. Beginning June 1, 2009 a new law became effective that requires that drug establishment registration and drug listing information be submitted electronically. Our medical food products are registered in the FDA NDC database in the previous paper format. The new Structured Product Labeling format introduced by the FDA in June 2009 is a very complex system that involves translating traditional registration information into XML format. As a result of difficulties with the electronic program, the FDA instituted weekly conference calls to resolve registration problems and, as a result of these obstacles, there can be no guarantee that these products can be registered in the new electronic format.

We have registered our medical foods and medical food convenience packs in the First Databank, Medispan and Redbook databases. All the core medical foods are registered in the FDA's official National Drug Code database. In addition, the Company has registered 17 of its convenience packs in the NDC database. There is no assurance that we can maintain our registrations in either the FDA NDC database or the private registration systems. The majority of insurance companies draw their information from the private databases but there is no assurance that our products will remain in the databases, which could leave doctors unable to obtain reimbursement for our products. If we are unable to maintain our registration, the results of our operations could be materially and adversely affected.

If physicians do not accept our products and services, or delay in deciding whether to purchase our products and services, our business, financial condition and results of operations will be adversely affected .

Our business model depends on our ability to sell our products and services. Acceptance of our products and services requires physicians to adopt different behavior patterns and new methods of conducting business and exchanging information. We cannot assure you that physicians will integrate our products and services into their workflow or those participants in the healthcare market will accept our products and services as a replacement for traditional methods of delivering pharmaceutical therapies and billing for those products. Achieving market acceptance for our products and services will require substantial sales and marketing efforts and the expenditure of significant financial and other resources to create awareness and demand by participants in the healthcare industry. If we fail to achieve broad acceptance of our products and services by physicians, and other healthcare industry participants or if we fail to position our products and services as a preferred therapies and medication management and pharmaceutical healthcare delivery, our business, financial condition and results of operations will be adversely affected.

If we are unable to successfully integrate businesses we acquire, our ability to expand our product and service offerings and our customer base may be limited.

In order to expand our product and service offerings and grow our business by reaching new customers, we may continue to acquire businesses that we believe are complementary. The successful integration of acquired businesses is critical to our success. Such acquisitions involve numerous risks, including difficulties in the assimilation of the operations, services, products and personnel of the acquired company, the diversion of management's attention from other business concerns, entry into markets in which we have little or no direct prior experience, the potential loss of the acquired company's key employees and our inability to maintain the goodwill of the acquired businesses. If we fail to successfully integrate acquired businesses or fail to implement our business strategies with respect to these acquisitions, we may not be able to achieve expected results or support the amount of consideration paid for such acquired businesses.

The successful implementation of our acquisition strategy depends on our ability to identify suitable acquisition candidates, acquire companies on acceptable terms, integrate their operations and technology successfully with our own and maintain the goodwill of the acquired business. We are unable to predict whether or when any prospective acquisition candidate will become available or the likelihood that any acquisition will be completed. Moreover, in pursuing acquisition opportunities, we may compete for acquisition targets with other companies with similar growth strategies. Some of these competitors may be larger and have greater financial and other resources than we have. Competition for these acquisition targets could also result in increased prices of acquisition targets.

Competition for our employees is intense, and we may not be able to attract and retain the highly skilled employees we need to support our business. Without skilled employees, the quality of our product development and services could diminish and the growth of our business may be slowed, which would have a material adverse effect on our business, financial condition and results of operations.

Our ability to provide high-quality products and services to our clients depends in large part upon our employees' experience and expertise. We must attract and retain highly qualified personnel with a deep understanding of the pharmaceutical and healthcare information technology industries. In addition, we invest significant time and expense in training our employees, increasing their value to clients as well as to competitors who may seek to recruit them, which would increase the costs of replacing them. If we fail to retain our employees, the quality of our product development and services could diminish and the growth of our business may be slowed. This could have a material adverse effect on our business, financial condition and results of operations.

We must attract quality management in order to manage our growth. Failure to do so may result in slower expansion.

In order to support the growth of our business, we will need to expand our senior management team. We have an active recruitment program for managers, middle managers and senior managers. There is no assurance that we will be capable of attracting quality managers and integrating those individuals into our management system. Without experienced and talented management, the growth of our business may be adversely impacted.

If we lose the services of our key personnel, we may be unable to replace them, and our business, financial condition and results of operations could be adversely affected.

Our success largely depends on the continued skills, experience, efforts and policies of our management and other key personnel and our ability to continue to attract, motivate and retain highly qualified employees. In particular, the services of William E. Shell, M.D, our Chief Executive Officer, are integral to the execution of our business strategy. We have an employment agreement with Dr. Shell that will expire, if not renegotiated, in December 2014. We believe that the loss of the services of Dr. Shell could adversely affect our business, financial condition and results of operations. We cannot assure you that we will continue to retain Dr. Shell. We do not maintain key man insurance for any of our key employees.

If we are unable to successfully introduce new products or services or fail to keep pace with medical advances and developments in billing services, our business, financial condition and results of operations will be adversely affected.

The successful implementation of our business model depends on our ability to adapt to evolving technologies and industry standards and introduce new products and services. We cannot assure you that we will be able to introduce new products on schedule, or at all, or that such products will achieve market acceptance. Moreover, competitors may develop competitive products that could adversely affect our results of operations. A failure by us to introduce planned products or other new products or to introduce these products on schedule could have an adverse effect on our business, financial condition and results of operations.

If we cannot adapt to changing technologies, our products and services may become obsolete, and our business could suffer. Because the Internet and healthcare information markets are characterized by rapid technological change, we may be unable to anticipate changes in our current and potential customers' requirements that could make our existing technology obsolete. Our success will depend, in part, on our ability to continue to enhance our existing products and services, develop new technology that addresses the increasingly sophisticated and varied needs of our prospective customers, license leading technologies and respond to technological advances and emerging industry standards and practices on a timely and cost-effective basis. The development of our proprietary technology entails significant technical and business risks. We may not be successful in using new technologies effectively or adapting our proprietary technology to evolving customer requirements or emerging industry standards, and, as a result, our business could suffer.

Our business depends in part on and will continue to depend in part on our ability to establish and maintain additional strategic relationships. Our failure to establish and maintain these relationships could make it more difficult to expand the reach of our products, which would have a material adverse effect on our business.

To be successful, we must continue to maintain our existing strategic relationships, such as our relationship with Arizona Nutritional Supplements, which manufactures our medical food products, and H.J. Harkins Co., Inc. ("Pharma Pac"), which provides our generic pharmaceuticals and distributor relationships, and establish additional strategic relationships with leaders in a number of pharmaceutical, healthcare and healthcare information technology industry segments. This is critical to our success because we believe that these relationships contribute towards our ability to extend the reach of our products and services to a larger number of physicians and physician groups and to other participants in the healthcare industry; develop and deploy new products and services; further enhance the Physician Therapeutics brand in the U.S. and the Targeted Medical Pharma brand internationally; and generate additional revenue and cash flows. Entering into strategic relationships is complicated because strategic partners may decide to compete with us in some or all of our markets. In addition, we may not be able to maintain or establish relationships with key participants in the healthcare industry if we conduct business with their competitors. We depend, in part, on our strategic partners' ability to generate increased acceptance and use of our products and services. If we lose any of these strategic relationships or fail to establish additional relationships, or if our strategic relationships fail to benefit us as expected, we may not be able to execute our business plan, and our business, financial condition and results of operations may suffer.

Future acquisitions may result in potentially dilutive issuances of equity securities, the incurrence of indebtedness and increased amortization expense.

Future acquisitions may result in potentially dilutive issuances of equity securities. In addition, future acquisitions may result in the incurrence of debt, the assumption of known and unknown liabilities, the write off of software development costs and the amortization of expenses related to intangible assets, all of which could have an adverse effect on our business, financial condition and results of operations. We could take charges against earnings in connection with acquisitions.

If our software products fail to perform properly due to undetected errors or similar problems, our business could suffer.

Complex software such as our *PDRx* system often contains undetected defects or errors. It is possible that such errors may be found after introduction of new software or enhancements to existing software. We continually introduce new solutions and enhancements to our products, and, despite testing by us, it is possible that errors might occur in our software. If we detect any errors before we introduce an upgrade or an enhancement, we might have to delay deployment for an extended period of time while we address the problem. If we do not discover errors that affect software or any upgrades or enhancements until after they are deployed, we would need to provide revisions to correct such errors. Errors in our software could result in harm to our reputation, lost sales, delays in commercial release, product liability claims, delays in or loss of market acceptance of our products and services and unexpected expenses and diversion of resources to remedy errors. Furthermore, our customers might use our products and software together with products from other companies. As a result, when problems occur, it might be difficult to identify the source of the problem and errors might cause us to incur significant costs, divert the attention of our technical personnel from our solution development efforts; impact our reputation and cause significant customer relations problems.

Our future success depends upon our ability to grow, and if we are unable to manage our growth effectively, we may incur unexpected expenses and be unable to meet our customers' requirements.

We will need to expand our operations if we successfully achieve market acceptance for our products and services. We cannot be certain that our systems, procedures, controls and existing space will be adequate to support expansion of our operations. Our future operating results will depend on the ability of our officers and key employees to manage changing business conditions and to implement and improve our technical, administrative, financial control and reporting systems. We may not be able to expand and upgrade our systems and infrastructure to accommodate these increases. Difficulties in managing any future growth could have a significant negative impact on our business, financial condition and results of operations because we may incur unexpected expenses and be unable to meet our customers' requirements.

Our failure to compete successfully could cause our revenue or market share to decline.

The market for our products and services is competitive and is characterized by rapidly evolving industry standards, technology and user needs and the frequent introduction of new products and services. Some of our competitors, which include major pharmaceutical companies with alternatives to our products, may be more established, benefit from greater name recognition and have substantially greater financial, technical and marketing resources than us. Moreover, we expect that competition will continue to increase as a result of consolidation in both the pharmaceutical and healthcare industries. If one or more of our competitors or potential competitors were to merge or partner with another of our competitors, the change in the competitive landscape could adversely affect our ability to compete effectively. We compete on the basis of several factors, including distribution of products and services; reputation; scientific validity, reliability, accuracy and security; client service; price; and industry expertise and experience. We also face competition from providers of other medication repackaging services and bulk pharmaceutical distributors. There can be no assurance that we will be able to compete successfully against current and future competitors or that the competitive pressures that we face will not materially adversely affect our business, financial condition and results of operations.

If we are unable to secure reimbursement for our products from insurance companies on behalf of our physician clients, or if the collection cycle is protracted, revenue from product sales by PTL and the billing and collection fee CCPI charges to our physician clients may be adversely affected.

The collection cycle in the workers compensation portion of our business, which has historically made up to approximately 75% of our revenue, may take in excess of two years and may involve denials and an extensive appeals process. In the event a reimbursement claim is denied and we appeal the denial, there can be no assurance that we will be successful in such appeal. In the event a reimbursement is delayed, we may be required to wait in excess of an additional year before we are paid for the cost of product sold to our physician clients. In addition, because CCPI fee revenue is dependent on collections from insurance companies for physician clients, delays or difficulties with these collections will reduce collection revenue. In addition, collection issues on behalf of our physician clients may lead to dissatisfaction of our clients in our

collection program and curtailed use of our products in their practice, which may adversely affect the growth of our business and our results of operations.

In the event the collection cycle for the reimbursement of our products is protracted, revenue from the products sold and support services provided to our physician clients may be adversely affected and we may be unable to sustain the growth of our Company at its current rate without additional financing.

In the event the collection cycle for the reimbursement claims we make on behalf of our physician clients is protracted, revenue from the products sold and support services provided to physician clients, which is the most lucrative part of our business, may be adversely affected. A prolonged collection cycle may also reduce our cash flow and require us to seek additional financing to support our operations. Such additional financing may not be available on terms acceptable to us or at all. If we raise funds by issuing additional securities, the newly issued securities may further dilute your ownership interest. If adequate funds are not available, then we may be required to delay, reduce or eliminate product development or marketing programs. Our inability to take advantage of opportunities in the industry because of capital constraints may have a material adverse effect on our business and our prospects.

Our business depends on our intellectual property rights, and if we are unable to protect them, our competitive position may suffer.

Our business plan is predicated on our proprietary systems and technology; accordingly, protecting our intellectual property rights is critical to our continued success and our ability to maintain our competitive position. We protect our proprietary rights through a combination of patents, trademark, trade secret and copyright law, confidentiality agreements and technical measures. We generally enter into non-disclosure agreements with our employees and consultants and limit access to our trade secrets and technology. We cannot assure you that the steps we have taken will prevent misappropriation of our technology. Misappropriation of our intellectual property would have an adverse effect on our competitive position. In addition, we may have to engage in litigation in the future to enforce or protect our intellectual property rights or to defend against claims of invalidity, and we may incur substantial costs and the diversion of management's time and attention as a result.

If we are deemed to infringe on the proprietary rights of third parties, we could incur unanticipated expense and be prevented from providing our products and services.

We could be subject to intellectual property infringement claims as the number of our competitors grows and our products and applications' functionality overlaps with competitive products. While we do not believe that we have infringed or are infringing on any proprietary rights of third parties, we cannot assure you that infringement claims will not be asserted against us or that those claims will be unsuccessful. We could incur substantial costs and diversion of management resources defending any infringement claims. Furthermore, a party making a claim against us could secure a judgment awarding substantial damages, as well as injunctive or other equitable relief that could effectively block our ability to provide products or services. In addition, we cannot assure you that licenses for any intellectual property of third parties that might be required for our products or services will be available on commercially reasonable terms, or at all.

Factors beyond our control could cause interruptions in our operations, which would adversely affect our reputation in the marketplace and our business, financial condition and results of operations.

To succeed, we must be able to operate our systems without interruption. We use certain third party suppliers to ship certain drug products to customers. If these third party suppliers fail to perform, we could experience an interruption in supplying our products to physician clients. Although we have established a co-location site for our services and we have disaster recovery programs in place, our operations could be vulnerable to interruption by damage from a variety of sources, many of which are not within our control, including without limitation: (1) power loss and telecommunications failures; (2) software and hardware errors, failures or crashes; (3) computer viruses and similar disruptive problems; and (4) fire, flood and other natural disasters. Any significant interruptions in our services would damage our reputation in the marketplace and have a negative impact on our business, financial condition and results of operations.

We may be liable for use of data we provide. If the data is incorrect, we could be liable for product liability or other claims that may be in excess of, or not covered by, our product liability insurance. This could harm our business, financial condition and results of operations.

We provide data for use by healthcare providers in treating patients. Third-party contractors provide us with some of this data. If this data is incorrect or incomplete, adverse consequences may occur and give rise to product liability and other claims against us. In addition, certain of our services provide applications that relate to patient clinical information, and a court or government agency may take the position that our delivery of health information directly to licensed practitioners exposes us to liability for wrongful delivery or handling of health information. While we maintain product liability insurance coverage in an amount that we believe is sufficient for our business, we cannot assure you that this coverage will prove to be adequate or will continue to be available on acceptable terms, if at all. A claim brought against us that is uninsured or under-insured could harm our business, financial condition and results of operations. Even unsuccessful claims could result in substantial costs and diversion of management resources.

If our security is breached, we could be subject to liability, and customers could be deterred from using our services.

The Health Information Technology for Economic and Clinical Health (HITECH) Act of 2009 controls all protocols for securely transmitting protected healthcare information over the Internet, via email and facsimile, including information protected by the Health Insurance Portability and Accountability Act of 1996 (HIPAA). Our business relies on using the Internet to transmit protected healthcare information. Regulations change rapidly and, if we cannot adapt our systems in a timely fashion, we could be liable for civil and criminal penalties. The HITECH Act provides a tiered system for assessing the level of each HIPAA privacy violation and, therefore, its penalty:

- Tier A is for violations in which the offender didn't realize he or she violated HIPAA and would have handled the matter differently if he or she had. A Tier A violation results in a $100 fine for each violation, and the total imposed for such violations cannot exceed $25,000 for the calendar year.
- Tier B is for violations due to reasonable cause, but not "willful neglect." The result is a $1,000 fine for each violation, and the fines cannot exceed $100,000 for the calendar year.
- Tier C is for violations due to willful neglect that the organization ultimately corrected. The result is a $10,000 fine for each violation, and the fines cannot exceed $250,000 for the calendar year.
- Tier D is for violations of willful neglect that the organization did not correct. The result is a $50,000 fine for each violation, and the fines cannot exceed $1,500,000 for the calendar year.

The HITECH Act also allows states' attorneys general to levy fines and seek attorney's fees from covered entities on behalf of victims. Courts now have the ability to award costs.

It is also possible that third parties could penetrate our network security or otherwise misappropriate patient information and other data. If this happens, our operations could be interrupted, and we could be subject to liability and regulatory action. We may need to devote significant financial and other resources to protect against security breaches or to alleviate problems caused by breaches. We could face financial loss, litigation and other liabilities to the extent that our activities or the activities of third-party contractors involve the storage and transmission of confidential information like patient records or credit information.

If we are forced to reduce our prices, our business, financial condition and results of operations could suffer.

We may be subject to pricing pressures with respect to our future sales arising from various sources, including practices of health insurance companies, Internet pharmacies, and pharmacy benefits managers, including those operating outside the United States, and government action affecting pharmaceutical reimbursement under Medicare. Our customers and the other entities with which we have a business relationship are affected by changes in regulations and limitations in governmental spending for Medicare and Medicaid programs. Recent government actions could limit government spending for the Medicare and Medicaid programs, limit payments to physicians and other providers and increase emphasis on competition

and other programs that potentially could have an adverse effect on our customers and the other entities with which we have a business relationship. If our pricing experiences significant downward pressure, our business will be less profitable and our results of operations would be adversely affected. In addition, because cash from sales funds some of our working capital requirements, reduced profitability could require us to raise additional capital sooner than we would otherwise need.

If we are unable to maintain existing relationships and create new relationships with pharmacy benefits managers, managed care payers, our business, financial condition and results of operations will be adversely affected.

We rely on pharmacy benefits managers to reimburse our physician clients for prescription medications dispensed in their offices. While many of the leading pharmacy benefit managers currently reimburse our physicians for in-office dispensing, none of these payers is under a long-term obligation to do so. If we are unable to increase the number of pharmacy benefits managers that reimburse for in-office dispensing, or if some or all of the payers who currently reimburse physicians decline to do so in the future, utilization of our products and services would decrease and, therefore, our business, financial condition and results of operations may be adversely affected.

If we incur costs exceeding our insurance coverage in lawsuits that are brought against us in the future, it could adversely affect our business, financial condition and results of operations.

If we were to become a defendant in any lawsuits involving the manufacture and sale of our products and if our insurance coverage were inadequate to satisfy these liabilities, it could have an adverse effect on our business, financial condition and results of operations.

If our principal suppliers fail or are unable to perform their contracts with us, we may be unable to meet our commitments to our customers. As a result, our reputation and our relationships with our customers could be damaged and our business and results of operations adversely affected.

We currently purchase a majority of the medications that we repackage from Pharma Pac and manufacture our medical food products at Arizona Nutritional Supplements Inc. These companies are subject to FDA regulation and they are responsible for compliance with current Good Manufacturing Practices. Although our agreements provide that our suppliers will abide by the FDA manufacturing requirements, we cannot control their compliance. If they fail to comply with FDA manufacturing requirements, the FDA could prevent Arizona Nutritional Supplements Inc. from manufacturing our products or, in the case of Pharma Pac, from selling its products to us. Although we believe that there are a number of other sources of supply of medications and manufacturers of medical food products, if these suppliers are unable to perform under our agreements, particularly at certain critical times during the year, we may be unable to meet our commitments to our customers. If this were to happen, our reputation as well as our relationships with our customers could suffer and our business and results of operations could be adversely affected.

Our failure to license and integrate third-party technologies into our software could harm our business.

We depend upon licenses for some of the technology used in our software and hardware solutions from third-party vendors, including Microsoft and Citrix Systems, and intend to continue licensing technologies from third parties. These technologies might not continue to be available to us on commercially reasonable terms or at all. Most of these licenses can be renewed only by mutual consent and may be terminated if we breach the terms of the license and fail to cure a breach within a specified period of time. Our inability to obtain any of these licenses could delay development until equivalent technology can be identified, licensed and integrated, which would harm our business, financial condition and results of operations.

Most of our third-party licenses are non-exclusive and our competitors may obtain the right to use any of the technology covered by these licenses and use the technology to compete directly with us. Our use of third-party technologies exposes us to increased risks, including, but not limited to, risks associated with the integration of new technology into our solutions, the diversion of our resources from development of our own proprietary technology and our inability to generate revenue from licensed technology sufficient to offset associated acquisition and maintenance costs. In addition, if our vendors choose to discontinue support of the

licensed technology in the future or are unsuccessful in their continued research and development efforts, we might not be able to modify or adapt our own solutions.

If we do not maintain and expand our business with our existing customers, our business, financial condition and results of operations could be adversely affected.

Our business model depends on the success of our efforts to sell products and services to our existing customers. These customers might choose not to expand their use of our products and services. If we fail to generate additional business from our current customers, our revenue could grow at a slower rate or even decrease.

Risks Related to Our Industry

We are subject to a number of existing laws, regulations and industry initiatives and the regulatory environment of the healthcare industry is continuing to change. If it is determined that we are not in compliance with the laws and regulations to which we are subject, our business, financial condition and results of operations could be adversely affected.

As a participant in the healthcare industry, our operations and relationships, and those of our customers, are regulated by a number of federal, state and local governmental entities and our products must be capable of being used by our customers in a manner that complies with those laws and regulations. Inability of our customers to do so could affect the marketability of our products or our compliance with our customer contracts, or even expose us to direct liability on a theory that we had assisted our customers in a violation of healthcare laws or regulations. Because of our direct business relationships with physicians and because the healthcare technology industry as a whole is relatively young, the application of many state and federal regulations to our business operations and to our customers is uncertain. Indeed, there are federal and state fraud and abuse laws, including anti-kickback laws and limitations on physician referrals, and laws related to off-label promotion of prescription drugs that may be directly or indirectly applicable to our operations and relationships or the business practices of our customers. It is possible that a review of our business practices or those of our customers by courts or regulatory authorities could result in a determination that could adversely affect us. In addition, the healthcare regulatory environment may change in a way that restricts our existing operations or our growth. The healthcare industry is expected to continue to undergo significant changes for the foreseeable future, which could have an adverse effect on our business, financial condition and results of operations. We cannot predict the effect of possible future legislation and regulation.

Specific risks include, but are not limited to, risks relating to:

- **Protected Health Information.** As part of the operation of our business, our customers provide to us patient-identifiable medical information related to the prescription drugs that they prescribe and other aspects of patient treatment. Government and industry legislation and rulemaking, especially the Health Insurance Portability and Accountability Act of 1996 (HIPAA), The Health Information Technology for Economic and Clinical Health (HITECH) Act of 2009 provides HHS with the authority to promulgate regulations and guidance to support the development of an interoperable, private and secure nationwide health information technology infrastructure. HHS also has the authority to promulgate regulations that require the use of standard transactions, standard identifiers, security and other standards and requirements for the transmission of certain electronic health information. National standards and procedures under HIPAA include the “Standards for Electronic Transactions and Code Sets” (the Transaction Standards); the “Security Standards” (the Security Standards); and the “Standards for Privacy of Individually Identifiable Health Information” (the Privacy Standards). The Transaction Standards require the use of specified data coding, formatting and content in all specified “Health Care Transactions” conducted electronically. The Security Standards require the adoption of specified types of security for healthcare information. The Privacy Standards grant a number of rights to individuals as to their identifiable confidential medical information (called Protected Health Information) and restrict the use and disclosure of Protected Health Information by Covered Entities, defined as “health care providers, health care payers, and health care clearinghouses.” Generally, the HIPAA standards directly affect Covered Entities. We believe that we are a Covered Entity as a as a health care clearinghouse; however, the definition of a health care clearinghouse is broad and we cannot offer any assurance that we could not be considered a health care clearinghouse under HIPAA or that, if we are determined to be a healthcare clearinghouse, the consequences would not be adverse to our business, financial condition and results of operations. In addition, the Privacy and Security Standards affect third parties that create, access, or receive Protected Health Information in order to perform a function or activity on behalf of a Covered Entity. Such third

parties are called “Business Associates.” Covered Entities must have a written “Business Associate Agreement” with such third parties, containing specified written satisfactory assurances, consistent with the Privacy and Security standards, that the third party will safeguard Protected Health Information that it creates or accesses and will fulfill other material obligations to support the Covered Entity’s own HIPAA compliance. Most of our customers are Covered Entities, and we function in many of our relationships as a Business Associate of those customers. We would face liability under our Business Associate Agreements if we do not comply with our Business Associate obligations. In addition, the federal agencies with enforcement authority have taken the position that a Covered Entity can be subject to HIPAA civil penalties and sanctions for a breach of a Business Associate Agreement. The penalties for a violation of HIPAA by a Covered Entity are significant and could have an adverse impact upon our business, financial condition and results of operations, if such penalties ever were imposed. Additionally, Covered Entities are required to adopt a unique standard National Provider Identifier (NPI) for use in filing and processing health care claims and other transactions. Subject to the discussion set forth above, we believe that the principal effects of HIPAA and HITECH are, first, to require that our systems be capable of being operated by our customers in a manner that is compliant with the various HIPAA and HITECH standards and, second, to require us to enter into and comply with Business Associate Agreements with our Covered Entity customers. We have policies and procedures that we believe assure compliance with all federal and state confidentiality requirements for the handling of Protected Health Information that we receive and with our obligations under Business Associate Agreements. In particular, we believe that our systems and products are capable of being used by our customers in compliance with the Transaction Standards and Security Standards and are, capable of being used by our customers in compliance with the NPI requirements. If, however, we do not follow those procedures and policies, or they are not sufficient to prevent the unauthorized disclosure of Protected Health Information, we could be subject to liability, fines and lawsuits, termination of our customer contracts or our operations could be shut down. Moreover, because all HIPAA and HITECH Standards are subject to change or interpretation and because certain other HIPAA and HITECH Standards, not discussed above, are not yet published, we cannot predict the full future impact of HIPAA and HITECH on our business and operations. In the event that the HIPAA and HITECH standards and compliance requirements change or are interpreted in a way that requires any material change to the way in which we do business, our business, financial condition and results of operations could be adversely affected. Additionally, certain state laws are not preempted by HIPAA and HITECH and may impose independent obligations upon our customers or us. Additional legislation governing the acquisition, storage and transmission or other dissemination of health record information and other personal information, including social security numbers, has been proposed at both the state and federal level. Such legislation may require holders of such information to implement additional security, reporting or other measures that may require substantial expenditures and may impose liability for a failure to comply with such requirements. In many cases, such proposed state legislation includes provisions that are not preempted by HIPAA and HITECH. There can be no assurance that changes to state or federal laws will not materially restrict the ability of providers to submit information from patient records using our products and services.

- **Electronic Prescribing.** The use of our software by physicians to perform a variety of functions, including electronic prescribing, electronic routing of prescriptions to pharmacies and dispensing, is governed by state and federal law, including fraud and abuse laws. States have differing prescription format requirements, which we have programmed into our software. Many existing laws and regulations, when enacted, did not anticipate methods of e-commerce now being developed. While federal law and the laws of many states permit the electronic transmission of prescription orders, the laws of several states neither specifically permit nor specifically prohibit the practice. Given the rapid growth of electronic transactions in healthcare, and particularly the growth of the Internet, we expect the remaining states to directly address these areas with regulation in the near future. In addition, on November 7, 2005, the Department of Health and Human Services published its final “E-Prescribing and the Prescription Drug Program” regulations (E-Prescribing Regulations). These regulations are required by the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) and became effective beginning on January 1, 2006. The E-Prescribing Regulations consist of detailed standards and requirements, in addition to the HIPAA and HITECH standards discussed above, for prescription and other information transmitted electronically in connection with a drug benefit covered by the MMA’s Prescription Drug Benefit. These standards cover not only

transactions between prescribers and dispensers for prescriptions but also electronic eligibility and benefits inquiries and drug formulary and benefit coverage information. The standards apply to prescription drug plans participating in the MMA's Prescription Drug Benefit. Aspects of our clinical products are affected by such regulation because of the need of our customers to comply, as discussed above. Compliance with these regulations could be burdensome, time-consuming and expensive. We also could become subject to future legislation and regulations concerning the development and marketing of healthcare software systems. For example, regulatory authorities such as the U.S. Department of Health and Human Services' Center for Medicare and Medicaid Services may impose functionality standards with regard to electronic prescribing and electronic health record ("EHR") technologies. These could increase the cost and time necessary to market new services and could affect us in other respects not presently foreseeable.

- **Electronic Health Records.** A number of important federal and state laws govern the use and content of electronic health record systems, including fraud and abuse laws that may affect providing such technology without cost to third parties. As a company that provides dispensing software systems to a variety of providers of healthcare, our systems and services must be designed in a manner that facilitates our customers' compliance with these laws. Because this is a topic of increasing state and federal regulation, we must continue to monitor legislative and regulatory developments that might affect our business practices as they relate to regulatory developments that might affect our business practices as they relate to EHR technologies and pharmaceutical dispensing software systems. We cannot predict the content or effect of possible future regulation on our business practices.
- **Claims Transmission.** Our system electronically transmits claims for prescription medications dispensed by physicians to patients' payers for approval and reimbursement. Federal law provides that it is both a civil and a criminal violation for any person to submit, or cause to be submitted, a claim to any payer, including, without limitation, Medicare, Medicaid and all private health plans and managed care plans, seeking payment for any services or products that overbills or bills for items that have not been provided to the patient. We have in place policies and procedures that we believe assure that all claims that are transmitted by our system are accurate and complete, provided that the information given to us by our customers is also accurate and complete. If, however, we do not follow those procedures and policies, or they are not sufficient to prevent inaccurate claims from being submitted, we could be subject to liability. As discussed above, the HIPAA Transaction Standards and the HIPAA Security Standards also affect our claims transmission services, since those services must be structured and provided in a way that supports our customers' HIPAA and HITECH compliance obligations. Furthermore, to the extent that there is some type of security breach it could have a material adverse effect.
- **Medical Devices.** The U.S. Food and Drug Administration (FDA) has promulgated a draft policy for the regulation of computer software products as medical devices under the 1976 Medical Device Amendments to the Federal Food, Drug and Cosmetic Act. To the extent that computer software is a medical device under the policy, we, as a manufacturer of such products, could be required, depending on the product, to register and list our products with the FDA; notify the FDA and demonstrate substantial equivalence to other products on the market before marketing such products; or obtain FDA approval by demonstrating safety and effectiveness before marketing a product. Depending on the intended use of a device, the FDA could require us to obtain extensive data from clinical studies to demonstrate safety or effectiveness or substantial equivalence. If the FDA requires this data, we would be required to obtain approval of an investigational device exemption before undertaking clinical trials. Clinical trials can take extended periods of time to complete. We cannot provide assurances that the FDA will approve or clear a device after the completion of such trials. In addition, these products would be subject to the Federal Food, Drug and Cosmetic Act's general controls, including those relating to good manufacturing practices and adverse experience reporting. Although it is not possible to anticipate the final form of the FDA's policy with regard to computer software, we expect that the FDA is likely to become increasingly active in regulating computer software intended for use in healthcare settings regardless of whether the draft is finalized or

changed. The FDA can impose extensive requirements governing pre- and post-market conditions like service investigation, approval, labeling and manufacturing. In addition, the FDA can impose extensive requirements governing development controls and quality assurance processes.

- **Licensure and Physician Dispensing.** As a manufacturer of medical food products and a repackager and distributor of drugs, we are subject to regulation by and licensure with the FDA, the Drug Enforcement Agency (DEA) and various state agencies that regulate wholesalers or distributors. Among the regulations applicable to our repackaging operation are the FDA's "good manufacturing practices." We are subject to periodic inspections of our facilities by regulatory authorities to confirm that we have policies and procedures in place in order to comply with applicable legal requirements. Because the FDA's good manufacturing practices were designed to govern the manufacture, rather than the repackaging, of drugs, we face legal uncertainty concerning the application of some aspects of these regulations and of the standards that the FDA will enforce. If we do not maintain all necessary licenses, or the FDA decides to substantially modify the manner in which it has historically enforced its good manufacturing practice regulations against manufacturers of medical foods and drug repackagers or the FDA or DEA finds any violations during one of their periodic inspections, we could be subject to liability, and our operations could be shut down. In addition to registration/licensure and "good manufacturing practices" compliance issues, federal and certain state laws require recordkeeping and a drug pedigree when a company is involved in the distribution of prescription drugs. Under the pedigree requirements, each person who is engaged in the wholesale distribution of a prescription drug in interstate commerce, who is not the manufacturer or an authorized distributor of record for that drug, must provide to the person who receives the drug, a pedigree for that drug. A drug pedigree is a statement of origin that identifies each prior sale, purchase, or trade of a drug. State laws in this area are not consistent with respect to their requirements, and thus we needs to carefully monitor legal developments in this area. To the extent we are found to violate any applicable federal or state law related to drug pedigree requirements, any such violation could adversely affect our business.

While physician dispensing of medications for profit is allowed in most states, it is limited in a few states. It is possible that certain states may enact further legislation or regulations prohibiting, restricting or further regulating physician dispensing. Similarly, while in a July 2002 Opinion the American Medical Association's Council on Ethical and Judicial Affairs (CEJA) provides, in relevant part, that "Physicians may dispense drugs within their office practices provided such dispensing primarily benefits the patient." Although the AMA Code of Medical Ethics does not have the force of law, a negative opinion could in the future adversely affect our business, financial condition and results of operations.

Congress enacted significant prohibitions against physician self-referrals in the Omnibus Budget Reconciliation Act of 1993. This law, commonly referred to as "Stark II," applies to physician dispensing of outpatient prescription drugs that are reimbursable by Medicare or Medicaid. Stark II, however, includes an exception for the provision of in-office ancillary services, including a physician's dispensing of outpatient prescription drugs, provided that the physician meets specified requirements. We believe that the physicians who use our system or dispense drugs distributed by us are aware of these requirements, but we do not monitor their compliance and have no assurance that the physicians are in material compliance with Stark II. If it were determined that the physicians who use our system or dispense pharmaceuticals purchased from us were not in compliance with Stark II, it could have an adverse effect on our business, financial condition and results of operations.

As a distributor of prescription drugs to physicians, we are subject to the federal anti-kickback statute, which applies to Medicare, Medicaid and other state and federal programs. The federal anti-kickback statute prohibits the solicitation, offer, payment or receipt of remuneration in return for referrals or the purchase, or in return for recommending or arranging for the referral or purchase, of goods, including drugs, covered by the programs. The federal anti-kickback statute provides a number of statutory exceptions and regulatory "safe harbors" for particular types of transactions. We believe that our arrangements with our customers are in material compliance with the anti-kickback statute and relevant safe harbors. Many states have similar fraud and abuse laws, and we believe that we are in material compliance with those laws. If, however, it were determined that we, as a distributor of prescription drugs to physicians, were not in compliance with the

federal anti-kickback statute, we could be subject to liability, and our operations could be curtailed. Moreover, if the activities of our customers or other entity with which we have a business relationship were found to constitute a violation of the federal anti-kickback law and we, as a result of the provision of products or services to such customer or entity, were found to have knowingly participated in such activities, we could be subject to sanction or liability under such laws, including civil and/or criminal penalties, as well as exclusion from government health programs. As a result of exclusion from government health programs, neither products nor services could be provided to any beneficiaries of any federal healthcare program.

Increased government involvement in healthcare could adversely affect our business.

U.S. healthcare system reform under the Medicare Prescription Drug, Improvement and Modernization Act of 2003, the Patient Protection and Affordable Care Act of 2010 U.S and other initiatives at both the federal and state level, could increase government involvement in healthcare, lower reimbursement rates and otherwise change the business environment of our customers and the other entities with which we have a business relationship. While no federal price controls are included in the Medicare Prescription Drug, Improvement and Modernization Act, any legislation that reduces physician incentives to dispense medications in their offices could adversely affect physician acceptance of our products. We cannot predict whether or when future healthcare reform initiatives at the federal or state level or other initiatives affecting our business will be proposed, enacted or implemented or what impact those initiatives may have on our business, financial condition or results of operations. Our customers and the other entities with which we have a business relationship could react to these initiatives and the uncertainty surrounding these proposals by curtailing or deferring investments, including those for our products and services. Additionally, government regulation could alter the clinical workflow of physicians, hospitals and other healthcare participants, thereby limiting the utility of our products and services to existing and potential customers and curtailing broad acceptance of our products and services. Additionally, new safe harbors to the federal Anti-Kickback Statute and corresponding exceptions to the federal Stark law may alter the competitive landscape, as such new safe harbors and exceptions allow hospitals and certain other donors to donate certain items and services used in electronic prescription systems and electronic health records systems. These new safe harbors and exceptions are intended to accelerate the adoption of electronic prescription systems and electronic health records systems, and therefore provide new and attractive opportunities for us to work with physicians' offices. In addition, the federal government and state governments, including Florida, have imposed or may in the future impose pedigree requirements for pharmaceutical distribution. Our medications business is required to comply with any current regulations relating to pharmaceutical distribution and will be required to comply with any future regulations and such compliance may impose additional costs on our business.

Consolidation in the healthcare industry could adversely affect our business, financial condition and results of operations.

Many healthcare industry participants are consolidating to create integrated healthcare delivery systems with greater market power. As provider networks and pharmacy benefits managers consolidate, thus decreasing the number of market participants, competition to provide products and services like ours will become more intense, and the importance of establishing relationships with key industry participants will become greater. These industry participants may try to use their market power to negotiate price reductions for our products and services. Further, consolidation of management and billing services through integrated delivery systems may decrease demand for our products. If we were forced to reduce our prices, our business would become less profitable unless we were able to achieve corresponding reductions in our expenses.

Risks Related to Our Common Stock

There is no active public trading market for our common stock. Until an active public trading market is established, you may not be able to sell your common stock if you need to liquidate your investment.

There is currently no active public market for our common stock. An active trading market may not develop or, if developed, may not be sustained. The price per share at which we are offering our common stock may not be indicative of the price that will prevail in the trading market. The lack of an active market may impair your ability to sell your shares of common stock at the time you wish to sell them or at a price that you consider reasonable. The lack of an active market may also reduce the market value of your common stock and increase the volatility of prices paid for shares of our common stock. An inactive market may also

impair our ability to raise capital by selling shares of common stock and may impair our ability to acquire other companies or assets by using shares of our common stock as consideration.

In the event a market develops for our common stock, the market price of our common stock may be volatile and may decline in value.

In the event a market develops for our common stock, the market price of our common stock may be volatile and may decline in value. Some of the factors that may materially affect the market price of our common stock are beyond our control, such as changes in financial estimates by industry and securities analysts, conditions or trends in the industry in which we operate or sales of our common stock. These factors may materially adversely affect the market price of our common stock, regardless of our performance. In addition, the public stock markets have experienced extreme price and trading volume volatility. This volatility has significantly affected the market prices of securities of many companies for reasons frequently unrelated to the operating performance of the specific companies. These broad market fluctuations may adversely affect the market price of our common stock.

Our stockholders may experience significant dilution if future equity offerings are used to fund operations or acquire complementary businesses.

If our future operations or acquisitions are financed through the issuance of equity securities, our stockholders could experience significant dilution. In addition, securities issued in connection with future financing activities or potential acquisitions may have rights and preferences senior to the rights and preferences of our common stock. We also established an incentive compensation plan for our management and employees. We expect to grant options to purchase shares of our common stock to our directors, employees and consultants and we will grant additional options in the future. The issuance of shares of our common stock upon the exercise of these options will also result in dilution to our stockholders.

Our current management can exert significant influence over us and make decisions that are not in the best interests of all stockholders.

Following the consummation of the offering, our executive officers and directors will beneficially own as a group approximately % of our outstanding shares of common stock, which excludes 588,735 shares of common stock issuable upon exercise of options held by our officers and directors, of which options are currently exercisable. As a result, these stockholders will be able to assert significant influence over all matters requiring stockholder approval, including the election and removal of directors and any change in control. In particular, this concentration of ownership of our outstanding shares of common stock could have the effect of delaying or preventing a change in control, or otherwise discouraging or preventing a potential acquirer from attempting to obtain control. This, in turn, could have a negative effect on the market price of our common stock. It could also prevent our stockholders from realizing a premium over the market prices for their shares of common stock. Moreover, the interests of the owners of this concentration of ownership may not always coincide with our interests or the interests of other stockholders and, accordingly, could cause us to enter into transactions or agreements that we would not otherwise consider.

We do not anticipate paying dividends in the foreseeable future; you should not buy our stock if you expect dividends.

We currently intend to retain our future earnings to support operations and to finance expansion and, therefore, we do not anticipate paying any cash dividends on our common stock in the foreseeable future.

We could issue "blank check" preferred stock without stockholder approval with the effect of diluting then current stockholder interests and impairing their voting rights, and provisions in our charter documents and under Delaware law could discourage a takeover that stockholders may consider favorable.

Our certificate of incorporation provides for the authorization to issue up to 20,000,000 shares of "blank check" preferred stock with designations, rights and preferences as may be determined from time to time by our board of directors. Our board of directors is empowered, without stockholder approval, to issue a series of preferred stock with dividend, liquidation, conversion, voting or other rights which could dilute the interest of, or impair the voting power of, our common stockholders. The issuance of a series of preferred stock could be used as a method of discouraging, delaying or preventing a change in control. For example, it would be

possible for our board of directors to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to change control of our company.

Provisions in our charter documents and Delaware law may inhibit a takeover of us, which could limit the price investors might be willing to pay in the future for our common stock and could entrench management.

Our amended and restated certificate of incorporation contains provisions that may discourage unsolicited takeover proposals that stockholders may consider to be in their best interests. Our board of directors is divided into three classes, each of which will generally serve for a term of three years with only one class of directors being elected in each year. As a result, at a given annual meeting only a minority of the board of directors may be considered for election. Since our "staggered board" may prevent our stockholders from replacing a majority of our board of directors at any given annual meeting, it may entrench management and discourage unsolicited stockholder proposals that may be in the best interests of stockholders.

We are also subject to anti-takeover provisions under Delaware law, which could delay or prevent a change of control. Together these provisions may make more difficult the removal of management and may discourage transactions that otherwise could involve payment of a premium over prevailing market prices for our securities.

We intend to apply for trading our common stock on the Nasdaq Capital Market, although we may not satisfy its eligibility criteria for listing.

We intend to apply to list our common stock for trading on the Nasdaq Capital Market. No assurance can be given that we will satisfy the eligibility criteria or other initial listing requirements, or that our shares of common stock will ever be listed on the Nasdaq Capital Market or another national securities exchange.

Purchasers in this offering will experience immediate and substantial dilution in the book value of their investment.

The initial offering price of our shares of common stock is substantially higher than the net tangible book value per share of our common stock immediately after this offering. Therefore, if you purchase our common stock in this offering, you will incur an immediate dilution of $ (or %) in net tangible book value per share from the price you paid, based upon the public offering price of $ per share of common stock. The exercise of outstanding options will result in further dilution in your investment. In addition, if we raise funds by issuing additional securities, the newly issued securities may further dilute your ownership interest.

Our outstanding options may have an adverse effect on the market price of our common stock.

As of the date of this prospectus, we had outstanding options to purchase 1,066,424 shares of common stock. In addition, we have agreed to issue to Sunrise Securities Corp., the representative of the underwriters, warrants to purchase such number of shares of common stock equal to 3% of the common stock sold in this offering. Therefore, the sale, or even the possibility of the sale, of the shares of common stock underlying these options and warrants could have an adverse effect on the market price for our securities or on our ability to obtain future financing. If and to the extent these options and warrants are exercised, you may experience dilution in your holdings.

We may allocate net proceeds from this offering in ways with which you may not agree.

Our management will have broad discretion in using the proceeds from this offering and may use the proceeds in ways with which you may disagree. We are not required to allocate the net proceeds from this offering to any specific investment or transaction and, therefore, you cannot determine at this time the value or propriety of our application of the proceeds. Moreover, you will not have an opportunity to evaluate the economic, financial or other information on which we base our decisions on how to use our proceeds. We may use the proceeds for corporate purposes that do not immediately enhance our prospects for the future or increase the value of your investment. As a result, you and other stockholders may not agree with our decisions. See *"Use of Proceeds"* for additional information.

Future sales of our shares of common stock by our stockholders could cause the market price of our common stock to drop significantly, even if our business is performing well.

After this offering, we will have shares of common stock issued and outstanding. This number includes shares of common stock we are selling in this offering, which may be resold in the public market immediately and 21,933,576 shares of common stock we are registering for resale by the securityholders named in this registration statement. Of the shares of common stock being registered for resale, are subject to lock-up agreements as described in the section entitled " *Shares Eligible for Future Sale*" and "*Underwriting — Lock-up Agreements*". At any time and without public notice, the underwriter may, in its sole discretion, release all or some of the shares of common stock subject to its lock-up agreement. As restrictions on resale end, the market price for our common stock could drop significantly if the holders of restricted shares sell them or are perceived by the market as intending to sell them. This decline in our stock price could occur even if our business is otherwise performing well. For more detailed information, please see " *Shares Eligible for Future Sale*" and "*Underwriting — Lock-up Agreements*".

If we cannot satisfy, or continue to satisfy, the Nasdaq Capital Market's listing requirements and other rules, including Nasdaq's director independence requirements, our securities may not be listed or may be delisted, which could negatively impact the price of our securities and your ability to sell them.

We will seek to have our securities approved for listing on the Nasdaq Capital Market upon consummation of this offering. We cannot assure you that we will be able to meet the initial listing requirements at that time. Even if our securities are listed on the Nasdaq Capital Market, we cannot assure you that we will be able to maintain this listing. If we are unable to satisfy the Nasdaq Capital Market criteria for maintaining our listing, our securities could be subject to delisting.

If the Nasdaq Capital Market does not list our securities, or subsequently delists our securities from trading, we could face significant consequences, including:

- a limited availability for market quotations for our securities;
- reduced liquidity with respect to our securities;
- a determination that our common stock is a "penny stock," which will require brokers trading in our common stock to adhere to more stringent rules and possibly result in a reduced level of trading activity in the secondary trading market for our common stock;
- limited amount of news and analyst coverage; and
- a decreased ability to issue additional securities or obtain additional financing in the future.

In addition, we would no longer be subject to the Nasdaq Capital Market rules, including rules requiring us to have a certain number of independent directors and to meet other corporate governance standards.

If the Nasdaq Capital Market does not list our securities, any market that develops in shares of our common stock will be subject to the penny stock restrictions which will create a lack of liquidity and make trading difficult or impossible.

SEC Rule 15g-9 establishes the definition of a "penny stock," for purposes relevant to us, as any equity security that has a market price of less than $5.00 per share or with an exercise price of less than $5.00 per share, subject to a limited number of exceptions. In the event the price of our shares of common stock falls below $5.00 per share, our shares will be considered to be penny stocks. This classification severely and adversely affects the market liquidity for our common stock. For any transaction involving a penny stock, unless exempt, the penny stock rules require that a broker-dealer approve a person's account for transactions in penny stocks and the broker-dealer receive from the investor a written agreement to the transaction setting forth the identity and quantity of the penny stock to be purchased.

In order to approve a person's account for transactions in penny stocks, the broker-dealer must obtain financial information and investment experience and objectives of the person and make a reasonable determination that the transactions in penny stocks are suitable for that person and that person has sufficient knowledge and experience in financial matters to be capable of evaluating the risks of transactions in penny stocks.

The broker-dealer must also deliver, prior to any transaction in a penny stock, a disclosure schedule prepared by the SEC relating to the penny stock market, which sets forth:

- the basis on which the broker-dealer made the suitability determination, and
- that the broker-dealer received a signed, written agreement from the investor prior to the transaction.

Disclosure also has to be made about the risks of investing in penny stocks in both public offerings and in secondary trading and commissions payable to both the broker-dealer and the registered representative, current quotations for the securities and the rights and remedies available to an investor in cases of fraud in penny stock transactions. Finally, monthly statements have to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks.

Because of these regulations, broker-dealers may not wish to engage in the above-referenced necessary paperwork and disclosures and/or may encounter difficulties in their attempt to sell securities subject to the penny stock rules. If Nasdaq Capital Market does not list our securities, our selling stockholders or other holders of our securities may have difficulty selling their shares in the secondary market due to the reduced level of trading activity in the secondary market. These additional sales practice and disclosure requirements could impede the sale of our securities, if and when our securities become publicly traded. In addition, the liquidity for our securities may decrease, with a corresponding decrease in the price of our securities. If the Nasdaq Capital Market does not list our securities, our shares will likely be subject to the penny stock rules for the foreseeable future and our stockholders will, in all likelihood, find it difficult to sell their securities.

In order to expand our business into additional states, we will need to comply with regulatory requirements specific to such state and there can be no assurance that we will be able to initially meet such requirements or that we will be able to maintain compliance on an on-going basis.

Each state has its own regulations concerning physician dispensing, restrictions on the corporate practice of medicine, anti-kick back and false claims. In addition, each state has a board of pharmacy that regulates the sale and distribution of drugs and other therapeutic agents. Some states require a physician to obtain a license to dispense prescription products. When considering the commencement of business in a new state, we solicit the opinion of healthcare counsel regarding the expansion of operations into that state and utilize local counsel when necessary. However, there can be no assurance that we will be able to comply with the regulations of particular states into which we intend to expand or that we will be able to maintain compliance with the states in which we currently distribute our products. Our inability to maintain compliance with the regulations of states into which we currently ship our products or expand our business into additional states may adversely affects our results of operations.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus 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 prospectus.

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*", 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*".

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 prospectus. We undertake no obligation to update any forward-looking statements or other information contained herein.

Information regarding market and industry statistics contained in this prospectus is included based on information available to us that we believe is accurate. It is generally based on academic and other publications that are not produced for purposes of securities offerings or economic analysis. Forecasts and other forward-looking information obtained from these sources are subject to the same qualifications and the

additional uncertainties accompanying any estimates of future market size, revenue and market acceptance of products and services. Except as required by U.S. federal securities laws, we have no obligation to update forward-looking information to reflect actual results or changes in assumptions or other factors that could affect those statements. See the section entitled " *Risk Factors*" for a more detailed discussion of risks and uncertainties that may have an impact on our future results.

USE OF PROCEEDS

We estimate that our net proceeds from the sale of shares of common stock in this offering will be approximately $27,689,000 after deducting the estimated underwriting discounts and estimated offering expenses payable by us.

Our current estimate of the use of the net proceeds from this offering is as follows:

	Approximate Allocation of Net Proceeds	Approximate Percentage of Net Proceeds
Working Capital[1]	$ 10,689,000	39%
Sales and Marketing[2]	3,000,000	11%
Distribution Development / Rollup[3]	3,000,000	11%
Facility Infrastructure[4]	2,000,000	7%
Management Expansion[5]	2,000,000	7%
Scientific Education[6]	2,000,000	7%
Technical Infrastructure[7]	1,500,000	5%
Research and Development[8]	1,500,000	5%
Regulatory Compliance[9]	1,000,000	4%
Intellectual Property[10]	500,000	2%
Scientific Advisory Board[11]	500,000	2%
Total	**$ 27,689,000**	**100%**

(1) We expect working capital to include costs associated with being a public company, general corporate and working capital expenditures.

(2) We expect sales and marketing to include costs associated with sales force expansion and the production and dissemination of marketing materials.

(3) We expect distribution development/rollup to include costs associated with refining and broadening the Company's distribution network, which entails training, compliance and administrative costs.

(4) We expect facility infrastructure to include costs associated with improvements to our existing facilities and expansion into additional facilities to accommodate our growth.

(5) We expect management expansion costs to include compensation and training of additional senior and middle management we expect to hire.

(6) We expect scientific education to include costs of providing education to staff, physicians and distributors related to the physiological mechanisms underlying our products and their medical benefits to various patient populations.

(7) We expect technical infrastructure to include costs related to expanding our computing network, acquiring and developing additional software and network and software maintenance.

(8) We expect research and development to include costs of expanding the Company's research library, prototyping and testing new products and clinical studies, including end-point trials.

(9) We expect regulatory compliance to include costs, including attorneys' fees, associated with adherence to the regulation and guidance of various government entities to which the Company is subject, including, for example, the Food and Drug Administration, the Internal Revenue Service, the Drug Enforcement Agency and the National Council of Prescription Drug Programs.

(10) We expect intellectual property to include costs associated with patent development, registration and protection of our intellectual property.

(11) We expect scientific advisory board to include costs associated with fees and expense reimbursements paid to our Scientific Advisory Board members.

The allocation of the net proceeds of the offering set forth above represents our estimates based upon our current plans and assumptions regarding industry and general economic conditions, our future revenues and expenditures.

Investors are cautioned, however, that expenditures may vary substantially from these estimates. Investors will be relying on the judgment of our management, who will have broad discretion regarding the application of the proceeds of this offering. The amounts and timing of our actual expenditures will depend upon numerous factors, including market conditions, cash generated by our operations, business developments and related rate of growth. We may find it necessary or advisable to use portions of the proceeds from this offering for other purposes.

Circumstances that may give rise to a change in the use of proceeds include:

- the existence of other opportunities or the need to take advantage of changes in timing of our existing activities;
- the need or desire on our part to accelerate, increase or eliminate existing initiatives due to, among other things, changing market conditions and competitive developments; and/or
- if strategic opportunities of which we are not currently aware present themselves (including acquisitions, joint ventures, licensing and other similar transactions).

From time to time, we evaluate these and other factors and we anticipate continuing to make such evaluations to determine if the existing allocation of resources, including the proceeds of this offering, is being optimized. Pending such uses, we intend to invest the net proceeds of this offering in direct and guaranteed obligations of the United States, interest-bearing, investment-grade instruments or certificates of deposit.

DILUTION

Historical net tangible book value per share is determined by dividing our total tangible assets less total liabilities by the actual number of shares of common stock outstanding. Before giving effect to this offering, our pro forma net tangible book value as of September 30, 2010 was approximately $14,242,747, or $0.65 per share of common stock, based on 21,933,576 shares of common stock outstanding after giving effect to the merger between the Targeted Medical Pharma, Inc. and AFH Acquisition III, Inc. Pro forma net tangible book value per share is determined by dividing our total tangible assets less total liabilities by the pro forma number of shares of common stock outstanding at September 30, 2010 before giving effect to this offering.

After giving effect to our sale of shares of common stock in this offering, at an assumed initial public offering price of $ per share, less estimated underwriting discounts and commissions and estimated offering expenses payable by us, our pro forma as adjusted net tangible book value as of September 30, 2010 would have been $, or $ per share. This represents an immediate increase in pro forma net tangible book value of $ per share, or %, to existing stockholders and an immediate dilution of $ per share, or %, to new investors. Dilution per share represents the difference between the amount per share paid by purchasers of shares of our common stock in this offering and the net tangible book value per share of our common stock immediately afterwards, after giving effect to the sale of shares in this offering at an assumed public offering price of $ per share, and after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us.

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

Public offering price per share	
Net tangible book value (deficit) per share before the offering	
Impact on net tangible book value per share of this offering	
Pro forma net tangible book value per share after this offering	
Dilution in net tangible book value per share to new investors	

The following table summarizes, on a pro forma basis as of September 30, 2010, the differences between the number of shares of common stock owned by existing stockholders and the number of shares of common stock to be owned by new public investors, the aggregate cash consideration paid to us and the average price per share paid by our existing stockholders and to be paid by new public investors purchasing shares of common stock in this offering at a public offering price of $ per share, calculated before deduction of estimated underwriting discounts and commissions and estimated offering expenses payable by us.

	Shares Purchased[1]		Total Consideration		Average Price Per Share
	Number	Percent	Amount	Percent	
Existing stockholders	21,933,576				
New public investors					
TOTAL		100%		100%	

(1) The number of shares disclosed for the existing stockholders includes shares being sold by the selling stockholders in this offering. The number of shares disclosed for the new investors does not include the shares being purchased by the new investors from the selling stockholders in this offering.

The number of shares of common stock outstanding in the table above is based on the number of shares outstanding as of September 30, 2010 after giving effect to the reorganization.

The information also assumes no exercise of any outstanding stock options. As of September 30, 2010, there were 566,424 options outstanding at a weighted average exercise price of $2.10. To the extent that any of these options are exercised, there will be further dilution to new investors. If all of these options had been exercised as of September 30, 2010, net tangible book value per share after this offering would have been $ and total dilution per share to new investors would have been $ or %.

DIVIDEND POLICY

We have never paid or declared any cash dividends on our common stock or on our preferred stock. We do not anticipate paying any cash dividends on our common stock in the foreseeable future. We intend to retain all available funds and any future earnings, if any, to fund the development and expansion of our business.

CAPITALIZATION

The following table describes our cash position and our capitalization as of September 30, 2010:

- on an actual basis;
- on a pro forma basis, after giving effect to the Reorganization and our issuance of 18,308,576 shares of common stock in connection therewith; and
- on a pro forma basis as adjusted basis to give effect to the pro forma adjustments described above and the sale of the shares of common stock we are offering at an initial public offering price of $ per share, after deducting underwriting discounts and commissions and estimated offering expenses payable by us.

You should read this table in conjunction with "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and other financial information included elsewhere in this prospectus.

	Actual 9/30/2010	Adjusted for the Reorganization 1/31/2011	Pro Forma Post-Offering
Common Shares Outstanding	12,398,111		
Shares Retired Prior to Reorganization	(18,299)		
	12,379,812	18,308,576	
Shares Issued in Reorganization		3,625,000	
		21,933,576	
Common Stock	1,239	21,934	
Additional Paid in Capital	3,199,500	3,178,805	
Retained Earnings	12,571,097	12,571,097	
Accumulated Other Comprehensive (Loss)	(6,344)	(6,344)	
Total Stockholders Equity	15,765,492	15,765,492	

Management's Discussion and Analysis of Financial Condition and Results of Operations

We are a specialty pharmaceuticals company, engaged in three principal activities:

- *Development and Distribution of Medical Foods Products*. We develop and commercialize medical foods and medical foods convenience packs utilizing our patents and trade secrets. We have created and market nine core medical foods and 47 convenience-packed therapeutic systems consisting of a medical food and a generic pharmaceutical, which physicians can prescribe and dispense together. We distribute such products through our PTL division in the United States, which sells products to physicians who, in turn, dispense our products to their patients. We currently have one license agreement to distribute our products in the Middle East. Sales to our Japanese distributor are on-going.
- *Billing and collections*. Our wholly-owned subsidiary, CCPI, a billing and collections company, supports physician clients in the United States in billing and collecting insurance reimbursement for pharmaceuticals on behalf of the dispensing physician. Revenue from CCPI is reflected as service revenue in our financial statements.
- *Diagnostic Testing.* LIS, a division of our Company, is a certified Independent Diagnostic Testing Facility that provides diagnostic electrocardiographic for arrhythmia monitoring, Heart Rate Variability testing and QT interval analysis. LIS provides the technical component of the testing and bills directly to insurers for reimbursement when used by physicians in clinical practice. LIS also provides core laboratory services for clinical trials, and research applications that are paid at a pre negotiated rate depending upon the level of service. This segment is immaterial to our financial statements taken as a whole.

We currently market nine core medical food products. In addition, we have developed 47 convenience packs that package a medical food with a generic pharmaceutical. The co-packaging of the generic pharmaceutical with the medical foods has been shown by clinical practice, observation studies and independent controlled clinical trials, to allow the physician the ability to select the optimal dose of the pharmaceutical.

We distribute our medical foods directly to physicians, who purchase products from us for dispensing directly to their patients. This is referred to as "point-of-care dispensing."

Recent Highlights of the Company

- Rapid growth of net sales, operating income and assets;
- FDA registration of convenience packs in the FDA National Drug Code Database;
- Addition of new distributors and sales representatives;
- Launch into Michigan, Illinois, Nevada, Arizona and Pennsylvania;
- Publication of controlled clinical trials in peer-reviewed journals;
- Issuance of patents on our products;
- Growth of CCPI subsidiary to support the reimbursement and collections of point-of-care dispensing;
- Expansion of management;
- We received approximately $733,000 in three grants under the Qualified Therapeutic Discovery Project tax credit reviewed by the Internal Revenue Service and the Department of Health and Human Services;
- Introduction of further updates to our *PDRx* physician management system;
- Growth of *PDRx* cloud computing physician management systems to approximately 150 physician groups;
- Initiation of joint project with Israel based LycoRed Ltd. to co-develop an asthma management system for US and foreign distribution;
- Contracts with major pharmacy benefit managers to support point-of-care physician reimbursement; and
- Expansion of claims submission automation.

Major Development Projects

We have a number of new neurotransmitter-related medical foods under development, including products for macular degeneration, osteoporosis and symptoms of Gulf War Syndrome. Cost of product development is substantially less than traditional pharmaceutical companies. We anticipate introduction of an enteral administration system for use in nursing homes and extended care facilities in 2011. These enteral systems will address sleep disorders, maintenance of cognitive function and enhanced retention of muscle mass in the aging population. These systems will utilize our patented technology.

FDA Warning Letter

PTL received a warning letter from the FDA on April 8, 2010 related to our convenience-packed products. To facilitate discussions with the FDA, we voluntarily stopped providing our physician clients with completed convenience packs. We responded to the FDA on April 24, 2010 and met with the FDA on August 3, 2010. We then corresponded with the FDA on August 24, 2010 and September 13, 2010 with a plan to addresses the FDA's concerns about our convenience-packed products. We agreed to remove from our patient materials and promotional materials a claim that the co-administration of our medical foods with the prescription drug could reduce the dose of the prescription drug. We further agreed to refrain from providing any materials that would promote any off-label use of a prescription drug, including both indication and dose of the drug. There is no certainty whether the FDA will raise additional objections about our convenience-packed products. There is no prohibition against physicians prescribing a medical food product contemporaneously with a drug regulated by the FDA. At all times, our dispensing physician clients could provide the medical food and prescription drug in a convenience pack in their practice of medicine.

Pricing Pressure

We may be subject to pricing pressures with respect to our future sales arising from various sources, including policies of health insurance companies and pharmacy benefits managers and government action affecting pharmaceutical reimbursement under Medicare and Medicaid. Future government actions could limit government spending for the Medicare and Medicaid programs, limit payments to physicians and other providers and increase emphasis on competition and other programs that potentially could have an adverse effect on our customers and the other entities with which we have a business relationship. If our pricing experiences significant downward pressure, our business will be less profitable and our results of operations would be adversely affected. In addition, because cash from sales funds some of our working capital requirements, reduced profitability could require us to raise additional capital sooner than we would otherwise need.

We have obtained, and continue to apply for further, patent protection for our medical food products and convenience packs. The patent protection would make it difficult for competitors to create medical foods with similar neurotransmitter function. As a result of increased scientific development and validation costs, the Company has raised its prices over the last three years. The price increase is in the form of an increase in Average Wholesale Price (AWP) which has been the pharmaceutical benchmark pricing standard. The AWP is being replaced by a new standard that is in the process of being implemented. Third party insurance re-imbursement contracts are currently based on a percentage of AWP or a similar replacement number. The Company raised its AWP in December of 2010 by 25% which will be reflected in 2011 revenue. Payments for the higher AWP began in January 2011. The Company believes that the increased price will be kept in place for some time in the absence of inflation pressure. The Company had not raised its prices since 2008 despite recent price increases throughout the pharmaceutical industry.

Downward price pressure could come from legislation, change in insurance contracts, and changes in the AWP standard benchmark. These changes could have a significant effect on the Company's cash position and could lead to the need for additional financing.

Current Customers and New Accounts

Our business model depends on the success of our efforts to sell products and services to our existing and new customers. The Company's strategy for the next twelve month is to grow revenues and profits by two distinct sales processes, growth of new accounts and growth of the dispense rate of our current customers. The Company monitors in real time the dispense rate of our products in the individual physicians' offices

through our network of cloud computing work stations that connect to our servers. When a physician dispenses a unit that information is immediately available on our network. The dispense rate of our current physicians varies from 1 unit per day to 200 units per day. The utilization of new funds will be used to provide customer support account managers to increase the dispense rate of existing clients.

The Company will also target new accounts by the expansion of our distributors, expansion of our sales force, expansion of our marketing effort and introduction of new products. If the Company cannot sustain its growth rate our sales and profit growth rate may slow or even decrease.

Results of Operations

Nine Months Ended September 30, 2010 Compared to Nine Months Ended September 30, 2009

	September 30, 2010	% of Total Sales	September 30, 2009	% of Total Sales
Revenue				
Product	$ 12,938,362	93.07%	$ 8,524,331	94.44%
Service	963,788	6.93%	501,099	5.56%
Total Revenue	13,902,150	100%	9,025,430	100%
Cost of Goods Sold	948,645	7.33%	965,401	11.33%
Gross Profit	12,953,505	93.18%	8,060,029	89.30%
Research and Development	7,340	0.05%	298,413	3.31%
Selling	116,601	0.84%	77,272	0.86%
General and Administrative	4,789,787	34.45%	3,630,989	40.23%
Total Operating Expenses	4,913,728	35.34%	4,006,674	44.40%
Net Income Before Other Income and Taxes	8,039,777	57.84%	4,053,355	44.90%
Other Income	5,045	0.04%	573	0.01%
Income Taxes	(3,351,792)	-24.11%	(1,528,308)	-16.93%
Net Income	$ 4,693,030	33.77%	$ 2,525,620	27.97%

Revenue

Total revenue for the nine months ended September 30, 2010 accelerated over 2009 as we added new physicians and added sales of generic and branded pharmaceuticals to our product mix. In addition, we increased pricing in December 2010 retroactive to January 1, 2010. Product revenue and service revenue are both affected by these factors. Many physician clients who purchase our products also use CCPI's billing services.

In 2009, we launched the collection division of CCPI, increasing the collection percentage and resulting service fee revenue. In 2010, there were three reductions in the rapid pay discount thus increasing collections and one increase in the product price. Further changes in the rapid pay discounts are anticipated.

Cost of Goods Sold

Our products are manufactured by a third party and distributed by PTL. Company products are sold through a network of distributors who, in turn, sell to their physician clients, and directly to physician clients. Revenue is recorded when product is shipped to the physician. Although revenue in the first nine months of 2010 increased as compared to the first nine months of 2009, the cost of goods sold decreased from $965,401 to $948,645 and the percentage of revenue decreased from 11.33% to 7.33%. The cost of goods sold percentage is impacted by rapid pay discounts to either distributors or managed accounts. The rapid pay discounts to distributors are greater than the rapid pay discounts to the Company-managed accounts resulting in a lower cost of sales relative to revenue. In 2010, we continued shifting our customer base to managed accounts thereby decreasing the effective cost of goods percentage. We anticipate that managed accounts will continue to grow faster than distributor revenue. The accounting treatment of these discounts is discussed in the *Critical Accounting Policies — Revenue Recognition*.

Research and Development Expense

Research and development decreased in 2010 compared to 2009. Research and development costs for clinical trials that are paid to third parties are capitalized and amortized over the period in which the services are rendered. Only one clinical trial has been paid for in 2010. Our research and development costs are substantially less than conventional single-molecule pharmaceuticals because the ingredients in our medical foods are GRAS. Accordingly, the safety studies, which are the mostly costly part of pharmaceutical development, do not have to be performed for our products. In addition, our products produce significant clinical effects so smaller sample sizes are sufficient to achieve statistical significance. Each clinical study of 100 patients costs approximately $250,000 per study. The studies are outsourced to clinical research organizations of ten sites per study to achieve independence. The study sites must maintain data sets for many years. The study sites are paid non-refundable payments. Accordingly, the expenses associated with controlled clinical studies are capitalized and amortized.

Selling expense

Selling expenses increased in 2010 and reflect commissions to sales representatives. Distributors bear their own commission expense.

General and Administrative Expense

General and administrative expense, including salaries and commissions, facility expense, professional fees, marketing, office expenses, travel and entertainment, increased in 2010 to $4,789,787 from $3,630,989. This increase represents the addition of billing personnel, a human relations department and a Vice President for Strategic Planning. There was also an increase in legal expense related to the FDA Warning Letter received by PTL in April 2010.

Current and Deferred Income Taxes

We report income to the Internal Revenue Service on the cash basis. Current income taxes represent the taxes paid for the respective years. Deferred income taxes amounted to $3,342,100 and $1,512,423 in 2010 and 2009, respectively, an increase of $1,829,677. The increase results primarily from the increase in accrual basis income that is not currently reportable for tax purposes but will become taxable in future years.

Year Ended December 31, 2009 Compared to Year Ended December 31, 2008

	December 31, 2009	% of Total Sales	December 31, 2008	% of Total Sales
Revenue				
Product	$ 11,494,141	94.22%	$ 11,801,748	94.44%
Service	705,074	5.78%	359,715	5.56%
Total Revenue	12,199,215	100%	12,161,463	100%
Cost of Goods Sold	1,257,727	10.31%	2,119,370	11.33%
Gross Profit	10,941,488	89.69%	10,042,093	89.30%
Research and Development	21,599	0.18%	9,032	3.31%
Selling	163,743	1.34%	232,198	0.86%
General and Administrative	4,997,442	40.97%	5,147,359	40.23%
Total Operating Expenses	5,182,784	42.48%	5,388,589	44.40%
Net Income Before Other Income and Taxes	5,758,704	47.21%	4,653,504	44.90%
Other Income	7,180	0.06%	1,688	0.01%
Income Taxes	(1,783,005)	-14.62%	(1,262,132)	-10.38%
Net Income	$ 3,982,879	32.65%	$ 3,393,060	34.54%

Revenue

For the year ended December 31, revenue increased from $12,161,463 in 2008 to $12,199,215 in 2009. Service revenue in 2009 accelerated as we added new physicians.

Cost of Goods Sold

Our products are manufactured by a third party and distributed by PTL. Company products are sold through a network of distributors who, in turn, sell to their physician clients, and directly to physician clients. Revenue is recorded when product is shipped to the physician. Although revenue increased in 2009 compared to 2008, the cost of goods sold decreased from $2,119,370 to $1,257,727 and from 18.00% to 10.94%. The cost of goods sold is impacted by rapid pay discounts to either distributors or managed accounts. The rapid pay discounts to distributors are greater than to Company-managed accounts. In 2008, we began shifting our customer base to managed accounts thereby decreasing the effective cost of goods. The results of 2009 compared to 2008 reflect the change in customer base.

Research and Development Expense

Research and development for the year ended December 31 increased in 2009 to $21,599 from $9,032 in 2008. Research and development costs for clinical trials that are paid to third parties are capitalized and amortized over the period in which the services are rendered. The costs for research and development reflect the amortization of clinical trials in 2009 and 2008. The clinical trials are performed on marketed products.

Selling Expense

Selling expense for the year ended December 31 increased in 2009 and reflects commissions to sales representatives. Distributors bear their own commission expense and those costs are reflected in the cost of goods sold.

General and Administrative Expense

General and administrative expense for the year ended December 31 decreased in 2009 to $4,997,442 from $5,147,359 in 2008. This decrease represents a decrease in legal and accounting expenses.

Current and Deferred Income Taxes

We report income to the Internal Revenue Service on the cash basis. Current income taxes represent the taxes paid for the respective years. Deferred income taxes for the year ended December 31 amounted to $1,742,500 and $1,242,332 in 2009 and 2008, respectively, which represents an increase of $500,168. The increase is due primarily to an increase in accrual basis income that is not currently reportable for tax purposes but will become taxable in future years with a phase-in period.

Liquidity and Capital Resources

Historically, we have financed our operations primarily by cash provided from our operating activities.

Cash flows from operations were $4,941 and $631,181for the nine months ended September 30, 2010 and 2009, respectively. Cash flows included operating income of $4,693,030, increased deferred income taxes of $3,342,100 and $5,407 from other operating activities offset by an increase in accounts receivable of $8,035,596 in the nine months ended September 30, 2010. Cash flows included operating income of $2,525,620, increased deferred income taxes of $1,512,363 and $197,166 from other operating activities offset by an increase in accounts receivable of $3,603,968 in the nine months ended September 30, 2008.

Cash flows used for investing activities were $15,142 and $754,498 for the nine months ended September 30, 2009 and 2008, respectively. Cash flows provided by investing activities included $487,372 sales of investments and cash flows used for investing activities included $20,764 internally developed software costs and $481,750 purchases of property and equipment in the nine months ended September 30, 2009. Cash flows used for investing activities included $364,675 purchases of investments, $21,099 internally developed software costs and $368,724 purchases of property and equipment in the nine months ended September 30, 2008.

Cash flows were not impacted by Financing Activities for the nine months ended September 30, 2009 and 2008.

Cash flows from operations were $890,537 and $49,963 for the years ended December 31, 2009 and 2008, respectively. Cash flows included operating income of $3,982,879, increased deferred income taxes of $1,742,500 and $140,998 from other operating activities offset by an increase in accounts receivable of $4,975,840 in the year ended December 31, 2009. Cash flows included operating income of $3,393,060, increased deferred income taxes of $1,242,332 and $236,347 from other operating activities offset by an increase in accounts receivable of $4,821,776 in the year ended December 31, 2009.

Cash flows used for investing activities were $1,382,002 and $164,146 for the years ended December 31, 2009 and 2008, respectively. Cash flows used for investing activities included $543,260 purchases of investments, $63,640 internally developed software costs and $775,102 purchases of property and equipment in the year ended December 31, 2009. Cash flows used for investing activities included $113,607 internally developed software costs and $50,539 purchases of property and equipment in the year ended December 31, 2008.

Cash flows were not impacted by Financing Activities for the years ended December 31, 2009 and 2008.

Cash on hand amounted to approximately $227,000 and $321,200 at September 30, 2010 and December 31, 2009, respectively.

Off-Balance Sheet Arrangements

We have no obligations, assets or liabilities which would be considered off-balance sheet arrangements. We do not participate in transactions that create relationships with unconsolidated entities or financial partnerships, often referred to as variable interest entities, which would have been established for the purpose of facilitating off-balance sheet arrangements.

Critical Accounting Policies

Estimates and Assumptions

The preparation of financial statements in conformity with United States generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and of revenues and expenses during the reporting period. Estimates are made when accounting for sales allowances, returns, rebates and other pricing adjustments, depreciation, amortization and certain contingencies when such estimates can be reasonably made. We review all significant estimates affecting the financial statements on a recurring basis and record the effect of any adjustments when necessary. Certain of these risks, uncertainties and assumptions are discussed further under the section entitled revenue recognition model.

Revenue Recognition

We record revenues from product sales when the goods are shipped and title passes to the customer. At the time of sale, estimates for a variety of sales deductions such as rebates, discounts and product returns are recorded.

In the pharmaceutical industry, gross product sales are subject to a variety of deductions that generally are estimated and recorded in the same period that the revenues are recognized. These deductions typically represent rebates and discounts to government agencies, wholesalers, distributors and managed care organizations. These deductions represent estimates of the related obligation and, as such, judgment and knowledge of market conditions and practice are required when estimating the impact of these sales deductions on gross sales for a reporting period.

Specifically,

- In the U.S., we record provisions for pharmaceutical Medicaid, Medicare and contract rebates based upon our experience ratio of rebates paid and actual prescriptions written during prior quarters. We apply the experience ratio to the respective period's sales to determine the rebate accrual and related expense. This experience ratio is evaluated regularly to ensure that the historical trends are as current as practicable. As appropriate, we will adjust the ratio to better match our current experience or our expected future experience. In assessing this ratio, we consider current contract terms, such as changes in formulary status and discount rates. If our ratio is not indicative of future experience, our results could be materially affected.
- Provisions for pharmaceutical chargebacks (primarily reimbursements to wholesalers for honoring contracted prices to third parties) closely approximate actual as we settle these deductions generally within twelve weeks of incurring the liability.
- Provisions for pharmaceutical returns are based on a calculation in each market that incorporates the following, as appropriate: local returns policies and practices; returns as a percentage of sales; an understanding of the reasons for past returns; estimated shelf life by product; and an estimate of the amount of time between shipment and return or lag time; and any other factors that could impact the estimate of future returns, such as loss of exclusivity, product recalls or a changing competitive environment. In most markets, returned products are destroyed, and customers are refunded the sales price in the form of a credit. Historically, our adjustments to actual have not been material; on a quarterly basis, they generally have been less than 1.0% of pharmaceutical net sales and can result in a net increase to income or a net decrease to income. The sensitivity of our estimates can vary by program, type of customer and geographic location. However, estimates associated with U.S. Medicaid and contract rebates are most at-risk for material adjustment because of the extensive time delay between the recording of the accrual and its ultimate settlement, an interval that can range up to one year. Because of this time lag, in any given quarter, our adjustments to actual can incorporate revisions of several prior quarters.
- CCPI recognizes billing and collection fee revenue monthly in an amount equivalent to a contractually-determined percentage of the total of claims collected on behalf of customers. The collection cycle, particularly in the workers compensation segment of our business, can often take in excess of two years and involve denials and an extensive appeals process. After initial rejection of a claim, we file first liens on the claim during a litigation period funded by the claimant and not the Company. During the pendency period of a workers compensation claim, pursuant to California regulation, the Company can accrue 15% interest and 15% penalties on the outstanding amounts. We recently billed claims for the interest and penalties and have not reflected these claims in the financial statements as it is not possible to determine the amount of reimbursement by insurers. These potential interest and penalties may apply to a majority of the Company's accounts receivable.
- Our clinical trial research and development expense is outsourced to clinical research organizations and individual study sites. Advanced nonrefundable payments are made to the study sites before the deliverable has occurred. Accordingly, we capitalize clinical trial research and development costs paid to third parties and amortize that cost as the services are rendered. All of our products are approved for marketing before the clinical trials are undertaken.

Our computer development costs are related to internally utilized systems that facilitate physician dispensing and inventory management. The software is not sold to an end-user. Accordingly, the computer development costs are capitalized and amortized over the expected life of the computer systems.

Recently Issued Accounting Pronouncements

Business Combinations. In December 2007, the Financial Accounting Standards Board (FASB) issued new accounting guidance on business combinations and non-controlling interests in consolidated financial statements. This new guidance retains the fundamental requirements in previous guidance for business combinations requiring that the use of the purchase method be used for all business combinations. The acquirer is required to recognize the assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree at the acquisitions date, measured at their fair values as of that date. Additionally, business combinations will now require that acquisition costs to be expenses as incurred, the recognition of contingencies, restructuring costs associated with a business combination must generally be expenses and changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally will affect income tax expense. This guidance applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, which is fiscal year 2009 for the Company.

In April 2009, the FASB revised and clarified the authoritative guidance related to the initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. Generally, assets acquired and liabilities assumed in a business combination that arise from contingencies must be recognized at fair value at the acquisition date. This guidance was effective for the Company as of January 1, 2009. As this guidance is applied prospectively to business combinations with an acquisition date on or after the date the guidance became effective, the impact to the Company cannot be determined until the transactions occur.

Non-controlling Interests in Consolidated Financial Statements. In December 2007, the FASB issued authoritative guidance clarifying that a non-controlling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. This guidance requires that a change in a parent's ownership interest in a subsidiary be reported as an equity transaction in the consolidated financial statements when it does not result in a change in control of the subsidiary. When a change in a parent's ownership interest results in deconsolidation, a gain or loss should be recognized in the consolidated financial statements. This guidance will be applied prospectively and was effective for fiscal years beginning on or after December 15, 2008, which was January 1, 2009 for the Company, except for the presentation and disclosure requirements, which will be applied retrospectively for all periods presented. The effect of adoption of this guidance on the Company's consolidated financial statements will depend primarily on the materiality of non-controlling interests arising in future transactions. The adoption of this guidance did not have a material impact on its consolidated financial statements.

Derivative Instrument and Hedging Activity Disclosures. In March 2008, the FASB amended and expanded the disclosure requirements related to derivative instruments and hedging activities by requiring enhanced disclosures about how and why an entity uses derivative instruments, how an entity accounts for derivative instruments and related hedged items and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. The revised guidance requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. This guidance was effective for the Company as of January 1, 2009. The adoption of this guidance did not have a material impact on its consolidated financial statements.

Fair Value Measurements. In February 2008, the FASB delayed the effective date of fair value measurement and disclosure guidance for all nonrecurring fair value measurements of nonfinancial assets and liabilities until fiscal years beginning after November 15, 2008. The delayed guidance became effective for all nonrecurring nonfinancial assets and liabilities of the Company as of January 1, 2009 and did not impact the financial performance of the Company.

In April 2009, the FASB issued authoritative guidance clarifying that fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants under current market conditions. This new guidance requires an evaluation of whether there has been a significant decrease in the volume and level of activity for the asset or liability in relation to normal market activity for the asset or liability. If there has, transactions or quoted prices may not be indicative of fair value and an adjustment may need to be made to those prices to estimate fair value. Additionally, an entity must consider whether the observed transaction was orderly (that is, not distressed or forced). If the transaction was orderly, the obtained price can be considered a relevant observable input for determining fair value. If the transaction is not orderly, other valuation techniques must be used when estimating fair value. This guidance was adopted for the period ending December 31, 2009. The adoption of this guidance did not have a material impact to the Company's results of operations, cash flows or financial positions.

In August 2009, the FASB issued authoritative guidance clarifying the measurement of the fair value of a liability in circumstances when a quoted price in an active market for an identical liability is not available. The guidance emphasizes that entities should maximize the use of observable inputs in the absence of quoted prices when measuring the fair value of liabilities. This guidance did not have a material impact on our consolidated financial statements.

In September 2009, the FASB issued authoritative guidance that provides further clarification for measuring the fair value of investments in entities that meet the FASB's definition of an investment company. This guidance permits a company to estimate the fair value of an investment using the net asset value per share of the investment if the net asset value is determined in accordance with the FASB's guidance for investment companies as of the company's measurement date. This creates a practical expedient to determining a fair value estimate and certain attributes of the investment (such as redemption restrictions) will not be considered in measuring fair value. Additionally, companies with investments within the scope of this guidance must disclose additional information related to the nature and risks of the investments. This guidance became effective for the Company as of October 31, 2010 and is required to be applied prospectively. The Company does not expect that adoption of this statement will have a material impact on its consolidated financial statements.

Accounting Standards **Codification.** In June 2009, the FASB issued authoritative guidance which replaced the previous hierarchy of U.S. GAAP and establishes the FASB Codification as the single source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. SEC rules and interpretive releases are also sources of authoritative U.S. GAAP for SEC registrants. This guidance modifies the U.S. GAAP hierarchy to include only two levels of U.S. GAAP: authoritative and non-authoritative. This guidance was effective for the Company for the year ended December 31, 2009. The adoption of this guidance did not impact the Company's results of operations, cash flows or financial positions since the FASB Codification is not intended to change or alter existing U.S. GAAP.

Revenue Arrangements with Multiple Deliverables. In October 2009, the FASB issued authoritative guidance that amends existing guidance for identifying separate deliverables in a revenue-generating transaction where multiple deliverables exist, and provides guidance for allocating and recognizing revenue based on those separate deliverables. The guidance is expected to result in more multiple-deliverable arrangements being separable than under current guidance. This guidance was effective for the Company beginning on January 1, 2011 and is required to be applied prospectively to new or significantly modified revenue arrangements. The Company has not engaged in multiple deliverable arrangements through the issuance of these financial statements and as such the guidance has no impact on the Company's reporting or performance.

Subsequent Events. In May 2009, the FASB issued authoritative guidance which incorporates the principles and accounting guidance for recognizing and disclosing subsequent events that originated as auditing standards into the body of authoritative literature issued by the FASB, and prescribes disclosures regarding the date through which subsequent events have been evaluated. The Company is required to evaluate subsequent events through the date the financial statements are issued or available to be issued. This guidance was effective for the Company for the period ended December 31, 2009. Since this guidance is not intended to significantly change the current practice of reporting subsequent events, it did not have an impact on the Company's results of operations, cash flows or financial positions.

BUSINESS

Overview of Our Business

Targeted Medical Pharma, Inc. is a specialty pharmaceutical company that develops and commercializes nutrient- and pharmaceutical-based therapeutic systems. We began our operations as Laboratory Industry Services LLC, a Nevada limited liability company, which was founded in 1996 by Elizabeth Charuvastra, our Executive Chairman and Vice President of Regulatory Affairs, and William E. Shell, MD, our Chief Executive Officer and Chief Scientific Officer. Laboratory Industry Services is an independent diagnostic testing facility. In 1999, Ms. Charuvastra and Kim Giffoni, our Executive Vice President of Foreign Sales and Investor Relations, co-founded Targeted Medical Foods, a California general partnership, which was converted into a California limited liability company in 2002, to develop medical food products. In 2003, Targeted Medical Foods formed Physician Therapeutics LLC, a Nevada limited liability company and a majority-owned subsidiary of Targeted Medical Foods, to distribute medical food products. In 2006, Targeted Medical Foods reorganized as a Delaware corporation and changed its name to Targeted Medical Pharma, Inc. Physician Therapeutics LLC and Laboratory Industry Services LLC became divisions of Targeted Medical Pharma, Inc. In 2007, we formed Complete Claims Processing Inc., a California corporation and our wholly-owned subsidiary, as a specialty billing services company to provide billing services relating to our products dispensed by physician clients.

We develop, manufacture, and sell a line of patented prescription medical food products that are currently distributed in the United States through a network of distributors and directly to physicians who dispense medical foods and other pharmaceutical products through their office practices. Our proprietary patented technology uses a five component system to allow uptake and use of these important neurotransmitter precursors to produce the neurotransmitters that control autonomic nervous system function such as sleep and pain perception. The neurotransmitters addressed by our patents include nitric oxide, acetylcholine, serotonin, norepinephrine, epinephrine, dopamine and histamine. The technology addresses neuron specificity and elimination of attenuation, or tolerance that is characterized by the need for increased dosage. The combination of the neurotransmitters and their precise proportions allows for a wide range of products. There are five issued patents that cover aspects of the inventions.

We distribute medical foods and generic and branded pharmaceuticals to dispensing physicians in seven states (California, Nevada, Arizona, Illinois, Michigan, Florida and Pennsylvania). Our products are distributed in the United States by Physician Therapeutics, a division of our company (PTL). The medical foods are distributed to physicians as prescription-only medications and then dispensed to patients by their physicians.

We believe that medical foods will continue to grow in importance over the coming years. There is an increasing prevalence of chronic diseases that are candidates for treatment with neurotransmitter-based medical foods, such as sleep disorders in the elderly, Gulf War Illness, cognitive dysfunction, macular degeneration, and pulmonary disorders. Additionally, the aging population will see an increased incidence of intolerance to traditional drugs related to changes in metabolic function that lead to increased and more dangerous drug side effects. Congress, the Food and Drug Administration (FDA), the Center for Medicare & Medicaid Services and private insurance companies are focusing increased efforts on pharmacovigilance to measure and reduce these adverse health consequences. There is a high level of acceptance of medical foods as a therapy by patients, and the medical community is increasingly accepting that these therapeutic agents are viable alternatives to prescription drugs. Medical foods are neither dietary nor nutritional supplements. From a regulatory standpoint, the FDA took steps in 1988 to encourage the development of medical foods by regulating this product category under the Orphan Drug Act. The term medical food, as defined in Section 5(b) of the Orphan Drug Act is a “food which is formulated to be consumed or administered enterally under the supervision of a physician and which is intended for the specific dietary management of a disease or condition for which distinctive nutritional requirements, based on recognized scientific principles, are established by medical evaluation.” This definition was incorporated by reference into the Nutrition Labeling and Education Act of 1990.

These regulatory changes have reduced the costs and time associated with bringing medical foods to market, as beforehand medical foods were categorized as drugs until 1972 and then as "foods for special dietary purposes" until 1988. The field of candidates for development into medical foods is always expanding due to constant advances in the understanding of the science of nutrition and disease, coupled with advances in food technology increasing the number of products that can be formulated and commercialized.

We distribute our products through an internal sales staff and a network of independent distributors to approximately 940 physicians or physician groups in the United States. As of 2009, there were 940,000 physicians in the American Medical Association master file in the United States and, with recent reductions in physician reimbursements for medical services, many physicians are actively seeking additional sources of practice revenues. We act on behalf of the dispensing physician to secure contracts with third party payers and, through our proprietary software, can bill for dispensed drugs and medical food products. The average wholesale price (AWP) for medical food is set by us under the terms of our federal relabeler license. The AWP price is the price billed to the physician and the insurance company. Certain applicable timely payment discounts, insurance discounts and distributor discounts can reduce the net payable to us on behalf of the physician. At the time of sale, estimates for a variety of sales deductions such as rebates, discounts and product returns are recorded.

The traditional process for prescribing and delivering medications to patients is inefficient, unnecessarily costly and error-prone. The Institute of Medicine has estimated that between 44,000 and 98,000 people die each year because of medical mistakes, including errors in the prescription of drugs. Physicians write virtually all of the approximately three billion annual prescriptions, resulting in errors and necessitating millions of telephone inquiries from pharmacies for clarification and correction. The pharmacist or managed care organization checks this information only after the physician writes the prescription. The inability of pharmacists and managed care organizations to communicate with physicians at the time the physician is writing the prescription has made it difficult to manage pharmaceutical costs. The existing process further inconveniences the patient, who must travel from the physician's office to a pharmacy and must often wait for the prescription to be filled.

We have developed and market nine core medical foods and 47 convenience-packed therapeutic systems consisting of a medical food and a generic pharmaceutical, which physicians can prescribe and dispense together. Our convenience-packed therapeutic systems address pain syndromes, sleep disorders, hypertension and metabolic syndromes. We developed these convenience-packed products at the request of physician clients to allow for the administration of the appropriate FDA-approved dose of a drug co-administered with a medical food that optimizes the use of the approved drug product under its approved labeling. Most often, the optimal dose co-administered with a medical food is the lowest FDA-approved and recommended dose that maintains the efficacy and reduces the side effects of the drug. Clinical practice, observation studies and independent controlled clinical trials have shown that co-administration of a pharmaceutical with a medical food product allows the physician to select the optimal dose of both agents. To date, three independent, double blind randomized controlled trials have been conducted using co-administration of a drug and a medical food product. The trials included the study of trazadone with the medical food product Sentra PM to measure responses in patients with sleep disorders. Another study included the co-administration of naproxen with the medical food product Theramine to measure responses in patients with chronic, established back pain. The third study used the co-administration of ibuprofen with the medical food product Theramine to measure the responses in patients with chronic, established back pain. These clinical trials were on specific convenience-packed products Trazamine, Theraproxen and Theraprofen. These double blind controlled trials yielded positive results in the areas of pain and sleep disorders. In these trials, drug side effects were reduced at the lowered drug doses. We have also performed a cost effectiveness analysis of gastrointestinal side-effect reduction comparing Theramine to NSAIDS. The analysis shows that by shifting pain management to Theramine base management and reducing the incidence of gastrointestinal hemorrhage associated with NSAID administration substantial savings to the health care system can be achieved. All convenience-packed drugs are within the FDA-approved label dose. These convenience packs are registered in the FDA National Drug Code (NDC) database and all convenience-packed products have been routinely reimbursed by third party payers.

In October 2010, we were awarded three grants under the Qualified Therapeutic Discovery Project tax credit totaling approximately $733,000 by the U.S. federal government for our work completed in 2010 and which the Company uses to continue work on its existing projects. The Qualified Therapeutic Discovery Project tax credit, which a recipient may elect to receive as a grant as we did, was enacted as part of the Patient Protection and Affordable Care Act of 2010 and established a pool for grants to small biotechnology companies developing novel therapeutics which show potential to (a) result in new therapies that either treat areas of unmet medical need, or prevent, detect, or treat chronic or acute diseases and conditions, (b) reduce long-term health care costs in the United States, or (c) significantly advance the goal of curing cancer within the next 30 years.

The market for the sale of prepackaged medications to physicians for on-site point-of-care dispensing includes medications distributed for general medical practice, occupational health, workers compensation, urgent care and pain clinics. On-site dispensing offers healthcare providers the opportunity to improve financial performance by adding an incremental source of revenue and reducing expenses related to prescription transmission, communications with pharmacists and billing and processing. From a patient's perspective, the dispensing of medications at the point-of-care provides an increased level of convenience, privacy and treatment compliance. Patients who do not wish to receive medicines dispensed at the point-of-care are able to access our products through selected pharmacies who order product directly from us.

We support our physician clients with a proprietary pharmacy claims processing service specifically designed for billing and collecting insurance reimbursement from private insurance, workers compensation and Medicare for our proprietary prescription-only products, therapeutic systems, generic and branded drugs. Our wholly-owned subsidiary, Complete Claims Processing Inc., provides this service to physician offices for the specific purpose of optimizing insurance reimbursement for dispensed pharmaceutical products.

We have developed a proprietary billing system based on recent advances in Cloud computing. Cloud computing is a technology that uses the internet and central remote servers to maintain data and applications. Cloud computing allows businesses to use applications without installation and access files at any computer with internet access. This technology allows for much more efficient computing by centralizing storage, memory, processing and bandwidth while remaining in compliance with all laws and regulations relating to protected health information. We provide each customer with a "Thin Client" device directly connected to our servers to give real time information on dispensing activity. This system also allows information to be delivered directly to us for purposes of future sales and educational content. Each physician's use of controlled substances is documented and reported to the Drug Enforcement Administration as required by law. This system is covered by a patent application that is hoped to mature into an issued patent in the near future. We are awaiting the United States Patent and Trademark Office's (USPTO) examination of the latest filed response to an Office Action in this application. Also, an additional continuation-in-part patent application is pending covering method processes of the same technology and we are awaiting receipt of the examination results of this patent application from the USPTO.

We plan to expand our medical foods business into products that address the nutritional management of macular degeneration, depression, osteoporosis, inflammatory syndromes, cardiovascular syndromes, Parkinson's disease, addiction, and bacterial infections.

Our Business Strategy

Our objective is to become the leading provider of medication solutions based on our patented therapeutic systems for improved patient outcomes and point-of-care tools designed to automate the physician's work flow.

Our strategy to achieve this objective includes the following:

- Accelerating sales of our medication management solutions through expansion of marketing efforts, conversion of traditional dispensing-only physician clients to the *PDRx* system and development of strategic alliances with physician practice management system vendors and managed care organizations.
- Increasing customer utilization of our medication management products to enhance the patient care and practice revenue for physicians through a combination of quality customer service, physician and ancillary staff education and development of specific disease management solutions.

Distinguishing Characteristics of Our Products and Services

- ***Unique medical food and medical food convenience packs therapeutic systems***
  - We manufacture nine core medical food products using patented technology that uses amino acids to produce and modulate neurotransmitters in specific diseases. Convenience packs contain a generic drug and a medical food product as a therapeutic system.
- ***Development of practice-specific formularies***
  - Each medical practice is involved in the management of patients with specific diseases. A formulary of medical food products and pharmaceutical therapies is developed for specific individual medical practices.
- ***Branded and Generic pharmaceuticals***
  - We manage the ordering, delivery, dispensing and tracking of branded and generic drugs in each physician client's practice.
- ***PDRx medication management solutions***
  - *PDRx* is our proprietary computer program used to facilitate and track dispensed medical food and drug products in a physician client's practice. *PDRx* facilitates a physician client's management of inventory and the dispensing physician is alerted to replenish products as necessary.
- ***Claims processing to insurance payers on behalf of customer physicians***
  - Complete Claims Processing Inc. (CCPI) is our wholly-owned subsidiary that manages the billing of our medical food and drug products to third party payers on behalf of each physician client.
- ***Claims collection management***
  - CCPI manages the collections on claims submitted to third party payers on behalf of each physician client.
- ***Physician reporting and accounts receivable management***
  - We submit a monthly report to each dispensing physician client that includes information about submitted claims and reimbursements received.
- ***Adjudication both data base and real-time***
  - We provide physician client's with electronic access to a drug knowledge database with comprehensive, up-to-date clinical and pricing information. This is important at point-of-care to determine what drugs and medical foods are covered under a specific insurance plan and the amount of co-payment and/or patient responsibility.
- ***Physician and ancillary staff education***
  - We maintain a Medical Science Liaison department to inform physician clients on the appropriate use of our medical food products and to teach ancillary staff the correct procedures for storing pharmaceutical products at the point-of-care site.
- ***Controlled substance reporting in California***
  - In California all physicians who dispense Schedule II, Schedule III, and Schedule IV controlled substances must provide the dispensing information to the Department of Justice on a weekly basis through the Controlled Substance Utilization Review and Evaluation System (CURES). We track this dispensing history in our *PDRx* software and file the CURES report on behalf of the physician client.

Business Organization

We have three principal business operations, one of which is a wholly-owned subsidiary and two of which are divisions, organized as follows:

Physician Therapeutics (PTL)

PTL is a division of our company and distributes proprietary medical foods and generic and branded pharmaceuticals to dispensing physicians in the United States. Currently, sales are made to physicians in seven (7) states, which states include California, Nevada, Arizona, Illinois, Michigan, Florida and Pennsylvania. We plan to expand our sales force into additional states. For purposes of physician reimbursement by insurance carriers, we have developed state specific contracts between the physician and the insurance carrier that take into account state by state regulation of physician dispensing.

Laboratory Industry Services (LIS)

LIS is a division of our company and is certified by the Center for Medicare and Medicaid Services (CMS) as an "Independent Diagnostic Testing Facility" that performs the technical analysis of certain diagnostic procedures in both the clinical setting and as a Core Laboratory for research applications. Founded in 1996, LIS has developed proprietary software applications for measuring autonomic nervous system function. These systems have been used in the development of our products to provide measurable physiological end points that ensure safety and efficacy during product development.

Complete Claims Processing, Inc. (CCPI)

CCPI is our wholly-owned subsidiary. CCPI provides billing and collection services on behalf of dispensing physician clients for private insurance, workers compensation and Medicare claims. CCPI bills for medical foods, generic pharmaceuticals and branded pharmaceuticals. Neither PTL nor CCPI produce generic or branded pharmaceuticals. CCPI bills for all products that have recognized and appropriately registered NDC numbers.

Background of Dr. William E. Shell

William E. Shell, M.D., our Chief Executive Officer, graduated from the University of Michigan in 1963 with a degree in Cell Biology with emphasis of biochemistry. Dr. Shell earned this degree, a first for the University of Michigan, following publication of papers regarding the Watson Crick model of DNA. During his undergraduate studies, Dr. Shell also worked on evolving technology for protein separation using gel chromatography.

Dr. Shell attended the University of Michigan Medical School and graduated in June 1967. During medical school, Dr. Shell was one of the first students chosen by the Michigan Heart Association to train in the cardiovascular division of University Hospital of University of Michigan. He published the first American paper on the syndrome now known as Mitral Valve Prolapse, which demonstrated the genetic nature of this malady.

Following his residency at the University of Michigan, Dr. Shell began a National Institutes of Health (NIH) Special Fellowship to study cardiology under Dr. Eugene Braunwald at the University of California San Diego. During his fellowship, Dr. Shell was a member of the team credited with discovering the cardio specific enzyme CK-MB. A diagnostic test for the presence of the CK-MB enzyme is now the clinical foundation for the detection and treatment of heart attacks. While at the University of California San Diego, Dr. Shell also helped develop the mathematical enzyme equations that allow the measurement of the size of a heart attack. Dr. Braunwald's team, including Dr. Shell, helped develop the early diagnostics allowing for the modification of the size and severity of a heart attack. Dr. Shell participated in early research on the re-opening of coronary arteries using catheters and clot dissolving agents. Dr. Shell and his colleagues published a total of 44 papers in medical journals on this body of work between 1969 and 1974.

Dr. Shell joined the United States Air Force following his fellowship. The first months of his military service were spent in the American Soviet Exchange Program as the first American physician representing the National Institutes of Health and the American government in Moscow. Several publications emanated from Dr. Shell's work in the Soviet Union, including early biochemical work that defined the relationship between

heart cell growth and creatine. In addition, he and his Soviet colleagues performed clinical trials which led to the discontinuation of digitalis as a treatment of heart attacks. These studies lead to the early examination of reperfusion as part of the treatment of heart attacks.

Upon his return to the United States, Dr. Shell served an as the director of the coronary care unit at Keesler Air Force Base in Mississippi, where he supervised the construction of the first modern coronary care unit for the United States Air Force, which became the model for future units. The Keesler Air Force Base research team explored the early interface between computer science and clinical medicine. Dr. Shell was awarded a Presidential Citation by President Richard Nixon for his work in the American Soviet Exchange Program and his administrative work creating the coronary care unit at Keesler.

Following his discharge from the Air Force, Dr. Shell returned to Los Angeles and joined the cardiology staff at Cedars of Lebanon Hospital and Mount Sinai Hospital. During his tenure, he planned, directed and implemented the merger of the coronary care unit at Cedars of Lebanon and Mount Sinai Hospital to what is now known as Cedars-Sinai Medical Center in Los Angeles, California. Dr. Shell was also Director of the Cardiac Catheterization Laboratory and Director of Cardiac Rehabilitation. In addition, he participated in the planning, funding and administration of NIH grants and managed a biochemistry research laboratory at Cedars-Sinai Medical Center. Dr. Shell also was given teaching responsibilities at both Cedars-Sinai and the University of California at Los Angeles, where he obtained the title of Associate Professor of Medicine in Residence.

In July 1996, the Medical Board of California ordered Dr. Shell's license to practice medicine to be revoked and stayed the revocation, which is the Medical Board of California's form of probation. The probation was for the oversubscription of medication to a single patient who was diverting a narcotic for street sale. Dr. Shell's license was at all times active. In November 1998, the Medical Board of California filed a petition to revoke Dr. Shell's probation for failure to meet the conditions of such probation by misreporting continuing medical education reports. Dr. Shell had performed his required continuing medical education units with Internet-based programs that the Medical Board of California did not recognize at the time. In August 2001, the Medical Board of California extended the original probation period for an additional three years to December 2001. After completion of this probation period, Dr. Shell received full restoration of his license. In connection with this matter, Dr. Shell's staff privileges at Cedars-Sinai Medical Center were terminated.

Simultaneous with his career in academic medicine, Dr. Shell pursued both private practice and entrepreneurial business activities. In 1985, Dr. Shell and his team published a leading article in *Laboratory Investigation* on the role of anti-inflammatory prostaglandins in the management of heart disease. He, along with others, also performed a series of experiments with Upjohn Company demonstrating that heart attack factors, such as vasoconstrictor prostaglandins, could be prevented or treated with vasodilator prostaglandins. Their work resulted in an article published in the *Cardiovascular Reviews and Reports* and a patent issued to Upjohn Company. Dr. Shell has continued research on prostaglandins and he and his team published a paper in the September 2010 issue of the *American Journal of Therapeutics* indicating that the recently-described T-cell modulated anti-inflammatory responses may be more important than the prostaglandin cascade alone.

In 1985, Dr. Shell became the chief executive officer of ImmuDx, a start-up biotechnology company. He managed technology development in cancer markers, infectious disease markers and cardiovascular events. This company was sold to Porton Industries Ltd. in 1986.

In 1989, Dr. Shell, along with Ms. Elizabeth Charuvastra, founded Beverly Glen Medical Systems, a cardiac diagnostic service company. Dr. Shell served as the chief scientific officer and chief medical officer. The technology that was developed at this company resulted in two patents that allow for the measurement of autonomic nervous system activity and measurements of the QT interval on 24-hour electrocardiograms. The technology has been used by the pharmaceutical industry in establishing safety standards for new drugs, by the Veterans Administration to establish that the Gulf War Syndrome is a form of nervous system dysfunction, and by the Environmental Protection Agency and other environmental groups to examine the effects of environmental toxins on the brain and other parts of the autonomic nervous system.

In 1991, Dr. Shell founded and served as chairman and chief executive officer of SeeShell Biotechnology, which merged with a company called Interactive Principals, which in turn merged into Interactive Medical Technologies, Inc. (IMT), whose stock was quoted on the Over the Counter Bulletin Board. Dr. Shell relinquished the daily CEO role and retained the title of Chairman of the Board of Directors until 1995.

IMT marketed three major technologies: nonradioactive blood flow techniques for animal investigations, albumin-based microspheres impregnated with radio-opaque dyes for cardiovascular imaging, and a new technology to bind fat in the gut and prevent its absorption. The albumin microspheres have evolved into imaging techniques for ultrasound evaluation and are now commonly used by physicians for ultrasound heart blood flow imaging. The fat binding technology has evolved into drugs such as Xenical and the dietary ingredient Benecol. The medical technology remains controversial.

In April 1991, Dr. Shell agreed to settle and pay a fine on a narrowly defined marketing charge by the Federal Trade Commission (FTC) for alleged deceptive practices in connection with the sale of "Fat-Magnet" diet pills marketed by IMT, which use the fat binding technology. In June 1997, Dr. Shell agreed to settle Federal Trade Commission charges for alleged deceptive practices in connection with the sale of "Lipitrol," a fat binding agent, marketed by IMT. The FTC order restricted Dr. Shell from making representations about Lipitrol without more extensive study. Dr. Shell had double blind data supporting the product assertion but determine to settle. Dr. Shell agreed to pay a fine rather than litigate with the FTC. The order expires in 2017. Neither Dr. Shell nor TMP market any fat binding agent or diet pill to consumers.

In 1992, the Securities and Exchange Commission (SEC) filed a complaint against IMT and Dr. Shell, among others, alleging that IMT and Dr. Shell violated the antifraud, registration and reporting provisions of the federal securities laws. More specifically, the SEC alleged that IMT's former president had diverted a portion of offering proceeds for personal use. In addition, the SEC alleged that IMT permitted the improper exercise of outstanding IMT warrants. Finally, the SEC alleged that IMT failed to disclose material information on the company in periodic reports. In August 1992, Dr. Shell consented to the entry of a permanent injunction as to violations of the antifraud, registration and reporting provisions of the federal securities laws, and IMT was ordered to make a rescission offer to all persons that exercised warrants while there was no registration statement in effect.

In 1994, Dr. Shell worked with Sandoz Pharmaceuticals, which is now Novartis, to perform a series of studies in the Netherlands demonstrating that fat binding was feasible.

In August 1997, the SEC filed a complaint in the U.S. Federal Court for the Southern District of New York (SDNY) alleging that IMT and Dr. Shell, as an officer, violated federal securities laws in connection with the registration of IMT's offering of 2.5 million shares of stock. In March 1998, without admitting or denying the allegations, Dr. Shell consented to the entry of a final judgment of permanent injunction.

Dr. Shell's innovation has led to 15 issued US patents and seven pending patent applications. He has also had significant other administrative responsibilities including Chairman of the American Heart Association program committee for Los Angeles. Dr. Shell has published more than 99 peer-reviewed scientific papers and has written chapters in 17 books.

Background of Physician Dispensing of Pharmaceuticals

In a March 2009 study by Wolters Kluwer Pharma Solutions, Inc. found that the rate of unfilled prescriptions has increased, from both denials and abandonment. Health plan denials of commercial prescription claims in 2009 were 8.1% for new prescriptions and 4.2% for refills; denials of new brand name drug prescriptions (10.3% in 2009) were down 1.4% from 2008, but were up 22.5% since 2006 (denials are prescriptions that have been submitted to a pharmacy but rejected by a patient's health plan). Abandoned prescriptions (those that are submitted to a pharmacy but are never picked up) as a percent of commercial prescription drug claims were 6.3% for new prescriptions and 2.6% for refills in 2009; for new brand name prescriptions, the abandonment rate was up 23% from 2008 and up 68% from 2006. Together, health plan denials and patient abandonment resulted in 14.4% of all new, commercial plan prescriptions going unfilled in 2009, up 5.5% from 2008. A 2009 study by Wolters Kluwer Pharma Solutions, Inc. found that the cost of drug-related morbidity, including poor adherence (not taking medication as prescribed by doctors) and

suboptimal prescribing, drug administration, and diagnosis, is estimated to be as much as $289 billion annually, about 13% of total health care expenditures. The barriers to medication adherence are many: cost, side effects, the difficulty of managing multiple prescriptions, patients' understanding of their disease, forgetfulness, cultural and belief systems, imperfect drug regimens, patients' ability to navigate the health care system, cognitive impairments, and a reduced sense of urgency due to asymptomatic conditions. Wolters Kluwer Pharma Solutions, Inc., Pharma Insight 2009: Patients take More Power Over Prescription Decisions (March 2010),

Physician dispensing envisages a dual role for the physician — prescribing medication and dispensing medicines to patients at "point-of-care." The conventional role of the physician is the prescription of medicine that is subsequently dispensed at a pharmacy. Although this physician-dispensing concept is currently being followed by a mere 10% of physicians in the country, it is gaining momentum because of the inherent benefits to both physicians and patients.

Until the early 20th century, pharmacists manufactured medications and physicians prescribed and dispensed them. The trend changed around early to mid 20th century, when physicians only prescribed medications, pharmaceutical companies manufactured them and pharmacists dispensed them. This trend seems to be changing once again. The practice of physician dispensing is gaining momentum because of its inherent advantages to both patients and physicians. It increases the physician's revenue and makes it more convenient for patients, by providing them with a one-stop solution for their medical care

Benefits of Physician Dispensing

- ***Increased Practice Revenue***
- ***Reduced Pharmacy Callbacks***: In a March 2002 article in *Pharmaceutical Executive* entitled *Tipping the Balance of Power With Digital Patient Information*, Mary Johnston Turner, cites a 1999 Institute of Medicine study that estimated that every pharmacy call-back cost physician practices $5 – $7 to pull and review the chart and return the call. With the average physician writing 30 prescriptions and handling approximately 30 requests for refills a day, the dollars add up quickly. With only 15 call-backs per day, that amounts to over $25,000 of expense. These costs and time losses can be reduced with physician dispensing.
- ***Improved Patient Care and Patient Compliance***: Writing and dispensing errors will be reduced. The compliance rate of patients receiving prescriptions filled at the point-of-care and taking the medicines as directed will improve. The overall health care costs will be reduced with improved compliance.
- ***Reduction of Adverse Drug Events***: Illegible writing of prescriptions, unclear abbreviations, unclear or inappropriate dosages, and unclear telephone/verbal orders cost primary care practices a large sum of money as overheads and these can be avoided with physician dispensing of medications.
- ***Increased Convenience***: It is more convenient for the patients as they will not need to drive to the pharmacy and wait for dispensing of the prescription. Patients can receive their medication at the point-of-care with physician dispensing and save time spent on commuting and waiting at the pharmacy. This will be especially convenient for the disabled, elderly patients and parents with sick children.
- ***Lower Cost Substitution***: Since physicians are aware of the costs of different medications, they can make substitutions on-the-spot for needy patients, or if a particular medication is not available. Pharmacists on the other hand would have to call the physician and wait for the physician to call back to approve any change required. This loss of vital time can be avoided with physician dispensing.

In 44 out of 50 states in the U.S., physician dispensing of prescription drugs is legal subject to specified regulations. In six other states, there are restrictions on this practice and, in Utah, the restrictions are severe enough that, in practical terms, physician dispensing is effectively prohibited altogether. In September of 2010, Utah promulgated rules for revisions of their laws to allow for physician dispensing of approved drugs. Texas,

New York and New Jersey have limitations on the number of units that may be dispensed at any one time. We believe there are no restrictions on physician dispensing of medical foods in any state. We believe that physician dispensing improves the health of patients and it increases the physician's practice revenue. In addition, we believe overall healthcare costs for patients are reduced with higher compliance rates achieved through physician dispensing.

Industry and Market Overview

According to industry analysts, sales in the global pharmaceutical market entare expected to have a compound annual growth rate of 4 – 7% through 2013. In addition, researchers suggest that the global pharmaceutical market is expected to expand and exceed $975 billion by 2013. We believe that the potential market for our medical food products is global and we believe we can take advantage of this growth trend in our industry.

According to a report by the Kaiser Family Foundation, health care costs have been rising for several years. According to the National Health Care Expenditures Data published in January 2010 by the Centers for Medicare & Medicaid Services (CMS), expenditures in the United States on healthcare surpassed $2.3 trillion in 2008, more than three times the $714 billion spent in 1990, and over eight times the $253 billion spent in 1980. In 2008, U.S. healthcare spending was about $7,681 per resident and accounted for 16.2% of the nation's Gross Domestic Product (GDP). This is among the highest of all industrialized countries. Pharmaceuticals are a major cost driver in U.S. healthcare. In 2004, prescription drugs accounted for approximately ten percent of all national health care spending. According to a report issued by CMS, the total national spending on prescription drugs, both private and public, from retail outlets "increased on average by about 11 percent a year from 1998 through 2005 — faster than the average seven percent a year increase in total U.S. health expenditures for the same period." In 2005, national spending on pharmaceuticals from retail outlets was approximately $201 billion. Federal spending on prescription drugs in 2005 accounted for an estimated 16 percent of this total.

Recently, physicians have been affected as healthcare reimbursements by Medicare and Medicaid have been reduced to accommodate federal and state budget deficits. The change in physician reimbursement has had an adverse financial impact on physicians in that the costs associated with administration of a medical practice have exceeded the revenues received from providing services to patients. Moreover, as healthcare becomes increasingly consumer driven, patients are seeking more information, control and convenience, placing additional time and financial pressures on physicians. These changes have prompted many physicians in the United States to search for tools and solutions to improve practice efficiency and increase revenue.

This industry growth is driven by stronger near-term growth in the U.S. market and is related to the changing combination of innovative and mature products, along with the rising influence of healthcare access through healthcare reform and funding on market demand. Our patented technology allows for the production of therapeutic products that address pain syndromes, sleep disorders, hypertension, viral infections and metabolic syndrome markets. We believe that these products can participate in the global market for these disorders. Although we cannot measure the size of the potential markets, we believe the pain syndromes, sleep disorders, hypertension, and metabolic syndrome markets may be significant.

The Department of Health and Human Services projects U.S. prescription drug spending to increase from $234.1 billion in 2008 to $457.8 billion in 2019, almost doubling over that 11-year period. CMS projects the average annual increase in drug spending from the previous year will increase from 3.2% in 2008 to 5.2% in 2009 (reflecting growth in the use of prescription drugs per person, driven by an increase in the use of anti-viral drugs related to the H1N1 virus), and then rise to 7.3% in 2019 (reflecting increases in drugs prices, the number of new drug approvals, and the share of expensive specialty drugs). In addition, CMS projects drug spending as a percent of overall national health spending to increase somewhat from 10.0% in 2008 to 10.2% in 2019.

Insurance Reimbursement

Department of Health and Human Services data show that, as of February 16, 2010, approximately 41.8 million (90%) of the 46.5 eligible Medicare beneficiaries, had drug coverage. The total number of beneficiaries in a Medicare Part D plans was 27.7 million (60%), including 17.7 million beneficiaries (38%) in stand-alone prescription drug plans and 9.9 million (21%) in Medicare Advantage drug plans. Another 14.2 million beneficiaries (31%) had coverage from either employer or union retiree plans including FEHB and TRICARE (8.3 million, or 18%) and drug coverage from the VA and other sources (5.9 million, or 13%). About 4.7 million Medicare beneficiaries (10%) had no drug coverage.

The Medicare Part D drug benefit shifted spending from the private sector and Medicaid to Medicare, making Medicare the nation's largest public payer of prescription drugs (from 7% in 2005 to 60% in 2008). Medicare prescription drug spending as a share of total US prescription spending rose from 2% in 2005 to 22% in 2008. Medicare prescription drug spending totaled $52.1 billion in 2008, an increase of 13% over 2007.

Domestic reimbursement groups in the United States include cash customers, private insurance, Medicare, Medicaid and Workers' Compensation insurance. We have obtained the billing codes, National Drug Codes ("NDC") and Average Wholesale Prices ("AWP") for both our medical food products and convenience-packed pharmaceutical products, which enable our products to be submitted for insurance reimbursement. (The National Drug Code (NDC) is a unique product identifier used in the United States for drugs intended for human use. The Drug Listing Act of 1972 requires registered drug establishments to provide the Food and Drug Administration (FDA) with a current list of all drugs manufactured, prepared, propagated, compounded, or processed by it for commercial distribution. Drug products are identified and reported using the NDC). The NDC numbers and AWP pricing have been accepted by the registration authorities and are included in the listings of the major drug databases, including First DataBank, Medispan, Red Book and the FDA NDC database.

Medicaid

Medicaid is the joint federal-state program that pays for medical assistance to 60 million low-income individuals and is the major source of outpatient pharmacy services to the nonelderly low-income population. Although prescription drugs is an optional service, all state Medicaid programs cover prescription drugs for most beneficiary groups, although there are important differences in state policies with regard to copayments, preferred drugs, and the number of prescriptions that can be filled. Since January 1, 2006, states have been required to make payments to Medicare to help finance Medicare drug coverage for those who are dually eligible for both Medicare and Medicaid. We currently intend to enter the Medicaid marketplace through its proprietary billing system provided by CCPI.

Workers' Compensation

The workers' compensation market operates differently than the Medicare and commercial insurance markets. Injured workers are covered, in general, by state-administered workers' compensation policies. A process is initiated that involves both approved and unapproved claims. The workers may select their own physician. Initial claims can be paid within 45 days but many claims are subject to a long collection cycle that may last in excess of 720 days. In our experience, 95% of claims are paid during the collection cycle. The collection range can be between 10% and 100% of the claim value. CCPI recognizes revenue based upon the amount collected and our historical average is reflected in our financial statements. We maintain an active claims submission and collection department. In 2009, according to National Council of Compensation Insurance, the national premium for workers compensation carriers was $34 billion.

Highlights of Growth Strategy

We believe that we can grow our business using the following strategies:

- *Leverage proprietary technology to create, distribute, market, and provide insurance reimbursement for prescription products that encompass prescription medical food, convenience-packed pharmaceutical products and generic and branded drugs*. Our products are routinely reimbursed by third party payers such as private insurance, workers compensation and Medicare. Products are distributed primarily through dispensing physicians and selected pharmacies. In the physician dispensing environment revenues are redirected from reimbursement to pharmacies to the physician who is acting as both the prescriber and the dispenser of medical therapies.
- *Expand internal sales distributions and expand the Physician Office Distribution (POD)* . The POD channel sells directly to physicians, who profit by prescribing and dispensing medical foods products, convenience packs and generic and branded pharmaceuticals. Current pricing pressure on healthcare insurance reimbursements have made physicians extremely receptive to carrying our products, which, in addition to their therapeutic value and scientifically-validated efficacy, provide much desired additional income for the physician.
- *Expand international sales through partners and distributors* . We currently market four products into Japan and have recently signed an exclusive distribution agreement for the sale of our proprietary products into the Middle East region.
- *Expand our reach into the PPO insurance and Medicare markets* . We have been heavily reliant on the worker's compensation insurance market that provides reimbursement through both distributors and internally-managed accounts. Payment protocols under the workers compensation system delay payment up to 180 days or longer for reimbursement. The Medicare and private insurance markets generally reimburse in 20 to 60 days from the date that the bill is submitted, which would improve cash flow considerably. The market for patients with private insurance and Medicare is dramatically larger than the workers compensation market alone.
- *Clinical Trials*. As additional clinical trials are conducted to support the scientific basis of prescribing our products in conjunction with generic and branded pharmaceuticals the plan is to demonstrate the ability to increase effectiveness, reduce total cost of treatment, and reduce the attenuation of drugs while reducing the dangerous side effects of some drugs. It is estimated that more than 130 convenience-packed products can be created based on current products. The patent application for convenience packed products cites 136 different variations. We were recently awarded three grants under the U.S. Government's Qualifying Therapeutic Discovery Project (QTDP) program established under Section 48D of the Internal Revenue Code. Our grant awards were specifically related to the applications submitted for our research and development efforts addressing the nutritional management of diseases with safe, therapeutic formulations sourced from bioactive compounds and co-administered with generic drugs.
- *Increase workforce capacity*. We expanded our corporate office space by 2700 square feet in 2009 to facilitate increased employee staffing for CCPI and our marketing of both branded and generic pharmaceuticals. We introduced a line of generic and branded pharmaceutics to our physician clients in July 2010. We now offer 48 generic and five branded pharmaceuticals. This component of the business is rapidly growing. We obtain the generic and branded drug products from wholesale drug distributors who ship directly to our clients.
- *Acquisition of complementary businesses* . In order to expand our product and service offerings and grow our business by reaching new customers, we may acquire businesses that we believe are complementary.

Products and Services

Medical Foods

Medical foods are a distinct product category — different from both drugs and from dietary supplements — regulated by the FDA. The medical food category, defined by the Orphan Drug Act of 1988 and an FDA regulation, includes such criteria as: specially formulated, administered orally, with on-going physician supervision, and intended for patients with a disease or abnormal condition characterized by a distinctive nutritional requirement or metabolic imbalance. The precise statutory definition is as follows: "The term "medical food" means a food which is formulated to be consumed or administered enterally under the supervision of a physician and which is intended for the specific dietary management of a disease or condition for which distinctive nutritional requirements, based on recognized scientific principles, are established by medical evaluation."

The FDA's May 2007 Guidance for Industry states "The term medical food is defined in section 5(b) of the Orphan Drug Act. The term 'medical food' does not pertain to all foods fed to sick patients. Medical foods are foods that are specially formulated and processed (as opposed to a naturally occurring foodstuff used in a natural state) for the patient who is seriously ill or who requires the product *as a major treatment modality*. Medical foods are only for a patient receiving active and ongoing medical supervision wherein the patient requires medical care on a recurring basis for, among other things, instructions on the use of the medical food." [Emphasis added.]

Medical foods must make a documented claim for the dietary management of a particular disease or condition, based on meeting the particular nutritional requirements of a specific disease. A medical food may not be intended for a condition that may be addressed by merely a change in the diet, e.g., a gluten-free diet for gluten sensitivity. Because they are highly specialized foods — and not dietary supplements — they are not exempt from the GRAS (Generally Recognized As Safe) requirements. Thus, all of their ingredients must either have GRAS status or be FDA-approved food additives. Medical foods currently marketed in the United States include products for inborn errors of metabolism and nutrient management of such conditions as healing from burns, osteoporosis, AIDS, and kidney disease. In some cases a medical food may provide the sole nutrient/ food for a patient (e.g., a throat cancer victim). Medical foods are administered both in hospitals and in clinical practice, out-patient settings.

We have developed proprietary medical food formulations based on our patented *Targeted Cellular Technology*, or TCT. The unifying foundation of our products is a focus on managing diseases and disorders caused in whole or in part by changes in nutritional requirements related to specific diseases that result in functional neurotransmitter depletion. These core medical food products are related to the production of the chemical messengers that are known as neurotransmitters. Neurotransmitters are intimately involved in the disease process and can be modulated through medically supervised nutritional management. Many pharmaceutical agents also operate through a neurotransmitter mechanism. Pharmaceutical agents act by blocking or manipulating neurotransmitter pathways, such as selective serotonin re-uptake inhibitors (SSRIs). Many diseases create accelerated utilization of certain nutrients that are not able to be replaced by the normal diet alone. Functional depletion of neurotransmitters is also associated with injury, prescription drug use, stress, and chemical exposure. Our medical foods are effective for the dietary management of such conditions by supplying the specific and distinctive nutrients that the patient needs.

Medical foods do not require approval from the FDA before marketing, thereby reducing the entry cost significantly compared to pharmaceuticals using neurotransmitter mechanisms. We market our medical foods as prescription-only products, requiring a physician prescription. Our products cannot be marketed directly to consumers, but must — in contrast to over-the-counter products — have continuous physician supervision, which we enforce with our prescription-only labeling appellation, and sale and distribution only through physicians and pharmacies.

We currently market nine core medical food products listed below.

Disease Management with Medical Foods	
AppTrim	Metabolic Syndrome, morbid obesity
AppTrim-D	Metabolic Syndrome, morbid obesity
GABAdone	Sleep Disorders associated with anxiety
Hypertensa	Hypertension, borderline hypertension
Lister-V	Viral infections
Sentra AM	Cognitive disorders, fatigue, fibromyalgia
Sentra PM	Sleep disorders associated with depression
Theramine	Pain syndromes and inflammatory disorders
Trepadone	Osteoarthritis, joint disorders

Theramine®

Our product, *Theramine* accounts for more than 54.4% sales. Pain is a complex process that is mediated by neurotransmitters which transmit signals originating from a pain-inducing stimulus to specific centers in the brain where it is perceived. Pain is exacerbated by the presence of inflammation which increases sensitivity to pain-inducing stimuli. Patients with pain syndromes benefit from increased availability of the specific neurotransmitters involved in modulating the pain process complemented by antioxidants and anti-inflammatory agents that reduce inflammation. *Theramine* is formulated to provide specific neurotransmitters with well-defined roles in the modulation of pain and a blend of antioxidants, anti-inflammatory agents, and immunomodulators to moderate the effects of inflammation on the pain response.

Theramine provides neurotransmitters that address the pain cycle and the inflammatory cascade and target the neurotransmitters nitric oxide, GABA, serotonin and glutamate that have primary effects on inhibition of pain cycles. *Theramine* also targets the inflammatory cascade through the histidine/histamine axis, which provides anti-inflammatory ACTH release from the pituitary gland, with subsequent release of anti-inflammatory molecules. *Theramine* results in inhibition of the inflammatory cascade at its proximal portions. Thus, the complete cascade of the inflammatory systems is inhibited, including anti-inflammatory prostaglandins and T cell long-term inflammatory markers. NSAIDS such as ibuprofen, naproxen and Celebrex inhibit only prostaglandins.

In 2009, we completed a double-blind-controlled trial of patients with chronic established back pain. In this trial, *Theramine* was compared to naproxen both alone and with co-administration of the two agents. *Theramine* was shown to be more effective than naproxen in reducing back pain, and the two agents were better than naproxen alone. In addition, this trial showed that *Theramine* reduced the inflammatory marker C-reactive protein, while naproxen in low dose actually increased inflammatory markers. Reduction of back pain, using the Roland Morris index, was more than 76%, compared to no change with low dose naproxen.

The Company has recently completed a double blind controlled trial of *Theramine* and Ibuprofen in 128 patients with chronic established back pain. There were three groups randomly assigned treatment. The groups included ibuprofen 200 mg daily alone, *Theramine* two capsules twice daily and *Theramine* with ibuprofen. The study duration was 28 days per patient. Ibuprofen reduced back pain by 20%, *Theramine* by 60% and *Theramine* with ibuprofen by over 80%. Ibuprofen increased both c-reactive protein and interleukin-6 while *Theramine* reduced these inflammatory markers. Ibuprofen inhibited amino acid uptake reducing amino acid turnover while *Theramine* improved amino acid uptake. Ibuprofen treatment increased the need for increased amino acid administration while *Theramine* improved amino acid utilization. Ibuprofen increased the nutritional requirement of back pain syndromes.

These data indicate that *Theramine* is both a potent pain reduction agent and an inhibitor of inflammation. The double-blind placebo-controlled data show there is no significant side effects of *Theramine*. We also completed an analysis of gastrointestinal hemorrhage associated with *Theramine* administration. A significant complication of the use of non-steroidal anti-inflammatory agents such as naproxen and ibuprofen is gastrointestinal hemorrhage that are expensive to treat and can cause death. We have shown that in more than 20 million daily doses of *Theramine* alone or in combination with other pain agents such as non-steroidal anti-inflammatory agents there has not been a single reported case of gastrointestinal hemorrhage. The

expected incidence of such events in this cohort would have been between 400 and 4000 gastrointestinal hemorrhages. The elimination or significant reduction of gastrointestinal hemorrhage when *Theramine* is used compared to use of non-steroidal anti-inflammatory agents such as naproxen and ibuprofen could significantly reduce health care costs.

Theramine contains dietary components that are Generally Recognized as Safe, a criterion that is necessary for a product to be included in the medical food category. In addition to *Theramine*, which is our leading product in terms of sale, the products *Sentra PM* and *GABAdone* that address chronic sleep disorders are second and third in terms of product sales. These two products elicit the production of serotonin, acetylcholine and GABA, the primary neurotransmitters responsible for the initiation and maintenance of sleep. These medical food products are composed of ingredients that are Generally Recognized as Safe. The concentrations and proportion of the formula do not result in morning grogginess or memory loss common with the use of pharmaceutical sleep aids. A significant portion of Company sales arise from *Sentra AM*, a product that increases acetylcholine, the central neurotransmitter associated with alertness, cognitive function and memory. It is also a central neurotransmitter associated with amelioration of the symptoms of fibromyalgia.

Convenience-Packed Products

We have developed 47 convenience-packed products consisting of medical foods formulations and generic pharmaceuticals, which physicians can prescribe and dispense together to optimize drug dosages and achieve a therapeutic effect, while reducing drug side effects and costs. Our convenience-packed products include therapies for pain syndromes, sleep disorders, hypertension, viral infections and metabolic syndrome. Three double blind controlled trials have been performed on these products with positive results showing that adjunctive therapy with a medical food product can reduce the drug dose while maintaining efficacy and reducing side effects The use of pharmaceutical agents co-administered with medical foods allows the physician to select the optimal dose of the pharmaceutical. To date, three independent, double blind randomized controlled trials have been conducted using components of convenience packs. The trials include the study of trazadone with Sentra PM the components of the convenience pack Trazamine. Another study included the co-administration of naproxen with Theramine, the products in the convenience pack Theraproxen. The third study was the co-administration of ibuprofen with Theramine, the components of the convenience pack Theraprofen. These double blind controlled trials yielded positive results in the areas of chronic, established back pain and sleep disorders. In these trials, drug side effects were reduced at the low drug doses and the potential for gastrointestinal hemorrhage was also reduced when NSAIDS were used as part of the convenience pack with the medical food Theramine. The convenience packed drugs are within the FDA-approved label dose. These convenience packs are registered in the FDA National Drug Code (NDC) database and all convenience-packed products have been routinely reimbursed by third party payers.

The results of one of the Theraproxen trials have been published in the November 2010 edition of the *American Journal of Therapeutics*, and publication of the results of the other two trials is planned in the immediate future.

The results of a clinical trial on a stand-alone medical food product, GABAdone, were published in *American Journal of Therapeutics* in the March/April 2010 issue in an article titled “A Randomized, Placebo-Controlled Trial of an Amino Acid Preparation on Timing and Quality of Sleep.”

TABLE OF CONTENTS

The following table illustrates our 47 convenience packs.

	CONVENIENCE PACK	INDICATION	MEDICAL FOOD	GENERIC DRUG	BRAND NAME OF DRUG (FOR REFERENCE PURPOSES ONLY)
1	**Appbutamone**	Metabolic Syndrome	AppTrim	bupropion	**Wellbutrin**
2	**Appbutamone – D**	Metabolic Syndrome	AppTrim – D	bupropion	**Wellbutrin**
3	**Appformin**	Metabolic Syndrome	AppTrim	metformin	**Glucophage**
4	**Appformin – D**	Metabolic Syndrome	AppTrim – D	metformin	**Glucophage**
5	**Gabavale-5**	Sleep a/o Anxiety	GABAdone	diazepam	**Valium**
6	**Gabazolamine**	Sleep a/o Anxiety	GABAdone	alprazolam	***Xanax**
7	**Gabazolpidem-5**	Sleep a/o Anxiety	GABAdone	zolpidem	**Ambien**
8	**Gabazolamine-0.5**	Anxiety	GABAdone	alprazolam	***Xanax**
9	**Gabitidine**	Sleep a/o Anxiety w/GI	GABAdone	ranitidine	**Zantac**
10	**Gaboxetine**	Sleep a/o Anxiety	GABAdone	fluoxetine	**Prozac**
11	**Hypertenevide-12.5**	Heart Failure/Hypertension	Hypertensa-90	carvedilol	**Coreg**
12	**Hypertenipine-2.5**	Hypertension	Hypertensa-90	amlodipine	**Norvasc**
13	**Hypertensolol**	Hypertension	Hypertensa-90	metoprolol	**Lopressor**
14	**Lytensopril**	Hypertension	Hypertensa	lisinopril	**Zestril**
15	**Lytensopril-90**	Hypertension	Hypertensa-90	lisinopril	**Zestril**
16	**Prazolamine**	Muscle Spasms	Theramine	carisoprodol	**Soma**
17	**Rimantalist**	Viral Infection	Lister V	rimantadine	**Flumadine**
18	**Senophylline**	Cognitive Disorders	Sentra AM	theophylline	**Quibron-T**
19	**Sentradine**	Sleep a/o Depression w/GI	Sentra PM	ranitidine	**Zantac**
20	**Sentraflox AM-10**	Mood Disorders	Sentra AM	fluoxetine	**Prozac**
21	**Sentralopram AM-10**	Depression	Sentra AM	citalopram	**Celexa**
22	**Sentravil PM-25**	Sleep a/o Depression	Sentra PM	amitriptyline	**Elavil**
23	**Sentrazolam AM-0.25**	Anxiety/Mood Disorders	Sentra AM	alprazolam	***Xanax**
24	**Sentrazolpidem PM-5**	Sleep a/o Depression	Sentra PM	zolpidem	**Ambien**
25	**Sentroxatine**	Sleep a/o Depression	Sentra PM	fluoxetine	**Prozac**
26	**Strazepam**	Sleep a/o Anxiety	Sentra PM	temazepam	**Restoril**
27	**Therabenzaprine-60**	Muscle Spasms	Theramine	cyclobenzaprine	**Flexeril**
28	**Therabenzaprine-90**	Muscle Spasms	Theramine	cyclobenzaprine	**Flexeril**
29	**Therabenzaprine-90-5**	Muscle Spasms	Theramine	cyclobenzaprine	**Flexeril**
30	**Theracodeine-300**	Pain	Theramine	codeine/acetaminophen	**Tylenol #3**
31	**Theracodophen-Low-90**	Pain	Theramine	hydrocodone/acetaminophen	**Vicodin 5**
32	**Theracodophen-325**	Pain	Theramine	hydrocodone/acetaminophen	**Norco – 10**
33	**Theracodophen-650**	Pain	Theramine	hydrocodone/acetaminophen	**Lorcet**
34	**Theracodophen-750**	Pain	Theramine	hydrocodone/acetaminophen	**Vicodin ES**
35	**Therafeldamine**	Inflammation and Pain	Theramine	piroxicam	**Feldene**
36	**Therapentin-60**	Nerve Pain	Theramine	gabapentin	**Neurontin 300**
37	**Theraprofen-60**	Inflammation and Pain	Theramine	ibuprofen	**Motrin 600**
38	**Theraprofen-90**	Inflammation and Pain	Theramine	ibuprofen	**Motrin 600**
39	**Theraprofen-800**	Pain	Theramine	ibuprofen	**Motrin**
40	**Theraproxen**	Inflammation and Pain	Theramine	naproxen	**Naprosyn**
41	**Theraproxen-90**	Inflammation and Pain	Theramine	naproxen	**Naprosyn**
42	**Theraproxen-500**	Inflammation and Pain	Theramine	naproxen	**Naprosyn**
43	**Theratramadol-60**	Pain	Theramine	tramadol	**Ultram**
44	**Theratramadol-90**	Pain	Theramine	tramadol	**Ultram**
45	**Trazamine**	Sleep a/o Depression	Sentra PM	trazadone	**Desyrel**
46	**Trepoxen-250**	Osteoarthritis	Trepadone	naproxen	**Naprosyn**
47	**Trepoxicam-7.5**	OA/ Rheumatoid Arthritis	Trepadone	meloxicam	**Mobic**

PTL received a warning letter from the FDA on April 8, 2010 related to our convenience-packed products. To facilitate discussions with the FDA, we voluntarily stopped providing our physician clients with completed convenience packs. We responded to the FDA on April 24, 2010 and met with the FDA on August 3, 2010. We then corresponded with the FDA on August 24, 2010 and September 13, 2010 with a plan to addresses the FDA's concerns about our convenience-packed products. We agreed to remove from our patient materials and promotional materials a claim that the co-administration of our medical foods with the prescription drug could reduce the dose of the prescription drug. We further agreed to refrain from providing any materials that would promote any off-label use of a prescription drug, including both indication and dose of the drug. There is no certainty that the FDA will not raise additional objections about our convenience-packed products. There is no prohibition against physicians prescribing a medical food product contemporaneously with a drug regulated by the FDA. At all times, our dispensing physician clients could provide the medical food and prescription drug in a convenience pack in their practice of medicine.

PDRx Software Dispensing Program

We have developed a proprietary computer-based dispensing solution that facilitates physician dispensing, provides inventory control and regulatory reporting. The dispensed products include medical foods, generic pharmaceuticals and branded pharmaceuticals. The proprietary system, "*PDRx*," is based on a cloud computing system that directly communicates dispensing data from the physicians' offices to our management servers. Cloud computing is a technology that uses the internet and central remote servers to maintain data and applications. Cloud computing allows businesses to use applications without installation and access files at any computer with internet access. This technology allows for much more efficient computing by centralizing storage, memory, processing and bandwidth while remaining in compliance with all laws and regulations relating to protected health information. We provide each customer with a "Thin Client" device directly connected to our servers to give real time information on dispensing activity. This system also allows information to be delivered directly to us for purposes of future sales and educational content. Each physician's use of controlled substances is documented and reported to the Drug Enforcement Administration as required by law.

A physician's office can dispense a one-month supply of medications complete with dispensing label and patient instructions in approximately ten seconds. We have automatic surveillance programs that monitor physician dispensing rates and inventory. Using a max-min system, we can then generate a flag to physicians to reorder product as necessary. The growth of this distribution network has accelerated during the last twelve months, and we are currently adding between three and eleven physician groups per month. There are currently 149 physician groups that are now using the *PDRx* system.

Billing and Collections

CCPI is our billing and collections subsidiary company that allows physicians to bill for dispensed pharmaceuticals to private insurance, Medicare, Medicaid and Workers' Compensation insurance. This business model allows physicians to participate in the revenue stream from dispensing of pharmaceuticals. Our billing system utilizes a combination of two unique identifying numbers and a computer recognition algorithm to bill third party payers on behalf of the physician. Two patent applications for this process have been submitted. The functional utility of this system is currently protected by trade secret.

Diagnostic Testing

Laboratory Industry Services, a division of our company, is a certified "Independent Diagnostic Testing Facility" that performs the technical analysis of certain diagnostic procedures in both the clinical setting and as a physiologic laboratory for research applications. Founded in 1996, LIS has developed proprietary software applications for measuring autonomic nervous system function and assessment of cardiac risk from drugs that prolong the QT interval and thereby increase the risk of cardiac arrhythmia. These systems have been used in the development of our products to provide measurable physiological end points that ensure safety and efficacy. LIS provides services to clinicians, the pharmaceutical industry and governmental entities in research trials.

LIS receives insurance reimbursement from private insurance and Medicare specifically for the technical component of the analysis of each test when tests are performed for patients referred from clinical practice.

When LIS contracts with research facilities, a set price is agreed upon prior to the start of each study reflecting the complexity and data analysis of each study. Recently, LIS has performed a large study for the Veteran's Administration examining autonomic nervous system activity in Gulf War veterans. The result of a similar study performed by us on Gulf War I veterans was published in the *American Journal of Medicine* in October 2004.

Generic and Branded Pharmaceutical Distribution Line

We introduced our generic and branded pharmaceutical distribution line in July of 2010 and now offer 48 generic products and six branded products for physician use. Management anticipates substantial growth of this component of the distribution business in 2011.

Technology and Intellectual Property

Proprietary Technology

The proprietary *Targeted Cellular Technology*® ("TCT") platform allows reduced concentrations of amino acids to generate effective amounts of nerve and brain cell messengers, known as neurotransmitters, to target specific cells in the body to optimize cell function. Amino acids are the building blocks of protein that allow the body to produce these neurotransmitters that regulate most bodily functions. Increasing the body's own neurotransmitter production allows for improved sleep function, improved cognitive function, mitigation of pain, blood pressure regulation, improved lung function, appetite regulation and amelioration of complex medical syndromes with minimal potential for adverse effects. Our medical food products have effects similar to drugs in addressing the specific accelerated nutritional requirements of diseases. These products can be administrated alone or with traditional pharmaceuticals under medical supervision. Six years of clinical use and three double blind clinical trials have demonstrated that the adjunctive use of a medical food product with a traditional pharmaceutical can provide optimum drug dose that conforms to the lowest FDA labeled dose. We have received five patents on the TCT process and have five pending patent applications covering our TCT technology, and we maintain trademarks, trade secrets, and proprietary methods, as further set forth below.

Patents

The nutrient based and pharmaceutical product development process involves extensive trade secrets and pending and issued patent protections. The patents related to the *Targeted Cellular Technology* platform were assigned from the inventors, Elizabeth Charuvastra, RN and William Shell M.D., who are also, respectively, Chairman of our Board of Directors and our Chief Executive Officer.

Additional patent applications for medical foods convenience-packed products are in the process of being written and filed.

We currently own, or have exclusive rights to, the following issued patents and pending patent applications:

Pat. No./App. Serial No.	Title	Owner	Product(s)/Product Candidate(s)	Expiration
7,674,482 (USA)	Method and compositions for potentiating pharmaceuticals with amino acid based medical foods	Targeted Medical Pharma, Inc.	Medical foods for producing acetylcholine and serotonin for improved sleep	3/22/2026
7,601,369 (USA)	Composition and method to augment and sustain neurotransmitter production	Targeted Medical Pharma, Inc.	Method for enhancing epinephrine and norepinephrine neurotransmitter activity	8/27/2022
7,595,067 (USA)	Composition and method to augment and sustain neurotransmitter production	Targeted Medical Pharma, Inc.	Method for stimulating nitric oxide production and white blood cell production for improved antiviral activity	8/27/2022
7,582,315 (USA)	Composition and method to augment and sustain neurotransmitter production	Targeted Medical Pharma, Inc.	Method for enhancing serotonin neurotransmitter activity	8/27/2022
7,585,523 (USA)	Composition and method to augment and sustain neurotransmitter production	Targeted Medical Pharma, Inc.	Method for enhancing acetylcholine neurotransmitter activity	8/27/2022
03791695.4 (Europe pending)	Composition and method to augment and sustain neurotransmitter production	Targeted Medical Pharma, Inc.	Method for enhancing neurotransmitter activity	N/A
2004-532915 (Japan pending)	Composition and method to augment and sustain neurotransmitter production	Targeted Medical Pharma, Inc.	Composition for stimulating nitric oxide production and white blood cell production in order to produce antiviral activity	N/A
2010-79658 (Japan) Pending	Composition and method to augment and sustain neurotransmitter production	Targeted Medical Pharma, Inc.	Omnibus claim commensurate with specification	N/A
07753759.5 (Europe pending)	Method and compositions for potentiating pharmaceuticals with amino acid based medical foods	Targeted Medical Pharma, Inc.	Composition for use in a method for the treatment of viral infections by stimulating nitric oxide and white blood cell production	N/A
2009-501565 (Japan pending)	Method and compositions for potentiating pharmaceuticals with amino acid based medical foods	Targeted Medical Pharma, Inc.	Medical food for enhancing neurotransmitter activity	N/A
11/804,085 (USA pending)	System and method for submitting medication claims by point-of-care physicians	Targeted Medical Pharma, Inc.	CCPI claims billing and processing of medication claims by point-of-care physicians	N/A
12/966,720 (USA pending)	System and methods for submitting medication claims by a point-of-care physician	Targeted Medical Pharma, Inc.	CCPI claims billing and processing of medication claims by point-of-care physicians	N/A

Trademarks

We utilize trademarks on all current products and believe that having distinguishing marks is an important factor in marketing our products. Currently, we have nine U.S. registered trademarks on the principal register at the United States Patent and Trademark Office ("USPTO") and we have two common law trademarks. These marks are listed below. We believe that having distinctive marks for any additional products that we develop will also be an important marketing characteristic. We have not sought any foreign trademark protection for our products or product candidates at this time. U.S. trademark registrations generally are for fixed, but renewable, terms.

We currently own, or have exclusive rights to, the following registered trademarks:

Registered Trademarks

Registration No.	Mark	Owner	Product(s)/Product Candidate(s)
3010777	TARGETED CELLULAR TECHNOLOGY	Targeted Medical Pharma, Inc.	Medical foods for enhancing neurotransmitter production
3053172	PHYSICIAN THERAPEUTICS	Targeted Medical Pharma, Inc.	Medical foods
3156064	APPTRIM	Targeted Medical Pharma, Inc.	AppTrim-D
3515912	THERAMINE	Targeted Medical Pharma, Inc.	Theramine
3569823	SENTRA AM	Targeted Medical Pharma, Inc.	Sentra AM
3569826	SENTRA PM	Targeted Medical Pharma, Inc.	Sentra PM
3569829	HYPERTENSA	Targeted Medical Pharma, Inc.	Hypertensa
3569820	TREPADONE	Targeted Medical Pharma, Inc.	Trepadone
3569818	GABADONE	Targeted Medical Pharma, Inc.	GABAdone

We currently own, or have exclusive rights to, the following common law trademarks:

Common Law Trademarks

Mark	Owner	Product(s)/Product Candidate(s)
PHYSICIAN THERAPEUTICS	Targeted Medical Pharma, Inc.	Wholesale distributorships featuring dietary supplements and medical foods; Wholesale distributor of medical foods and convenience packs
	Targeted Medical Pharma, Inc.	Wholesale distributor of medical foods and convenience packs

Copyrights

We have developed a number of properties that we believe qualify for exclusivity in terms of the U.S. Copyright Act, among them:

Software Programs

- Digital Echocardiogram Annotation & Automated Reporting: A proprietary program for annotating measurements of the heart from echocardiogram video tapes. Program contains automated transfer to patient specific reports. This program is used internally and not licensed.

- TheoX: A proprietary program that analyzes distribution of QT interval and heart rate variability data over a 24-hour period. The program is designed to assess risk of potential for lethal cardiac arrhythmias using prolongation of the QT interval as a marker. Used to assess drug safety and contains an automated report system with enhanced graphic images of the EKG. This program is used internally and not licensed.
- Taos: A proprietary program for annotation of 12-lead electrocardiographic data to measure QT and JT intervals retrospectively. Used internally by Laboratory Industry Services to provide core laboratory services.
- Lifestyles Obesity Management Software Program: A proprietary program for MS Word that allows physicians to calculate an individual patient's time to goal weight with a daily calorie prescription to achieve the goal. The program generates a printed report to be provided to the patient and is used in conjunction with the Lifestyles Patient Workbook. This program is distributed to physicians who use our obesity management product, *AppTrim*.
- *PDRx*: *PDRx* is a proprietary computer system to facilitate point-of-care dispensing in the physician client's office. The system is a cloud-based system using Citrix interfaces, Hewlett Packard terminals and Microsoft cloud computing software. The dispensing program resides on our virtual servers and is distributed to physicians through virtual desktops using a Citrix system The program operates on a thin client portal, which is a small computer in the physician client's office dedicated to the *PDRx* system and allows physicians to dispense medications in their office, track inventory, initiate orders, initiate insurance claims, provide reports to regulatory authorities and manage receivables through our servers. The servers including the virtual servers are located in a hardened datacenter with co-location to our central servers. The co-location of mirrored servers at a dedicated and secured data site provides redundancy and security of dispensing data.
- CCPI Software: A computer system for initiating, managing and transmitting claims to insurance companies. This program has extensive reporting mechanisms for physicians and distributors.

Publications

- Lifestyles Patient Workbook: Lifestyles Patient Workbook distributed to patients by the physician for use in conjunction with Lifestyles Obesity Management Software Program. This publication is in binder format and contains educational materials related to dietary choices, exercise choices, sample menus, and recipes. Also included is a daily food intake and daily exercise record that is designed to allow the physician to examine a patient's daily diet.
- Product Monographs: Each of our products is backed by a detailed product monograph created by clinicians and food scientists that outlines the accelerated nutritional requirements of a particular disease or condition. Extensive peer reviewed references from the published medical and scientific literature are cited.

Medical Foods Manufacturing and Sources and Availability of Raw Materials

We outsource the manufacturing of our medical food products to a cGMP registered producer, Arizona Nutritional Supplements (ANS), under an exclusive contract that expires in December 2011. cGMP refers to the current Good Manufacturing Practice Regulations promulgated by the US Food and Drug Administration (FDA) under the authority of the Food, Drug, and Cosmetic Act of 1938. These regulations, which have the force of law, require that manufacturers, processors, and packagers of drugs, medical devices, some food, and blood take proactive steps to ensure that their products are safe, pure, and effective. cGMP regulations address issues including recordkeeping, personnel qualifications, sanitation, cleanliness, equipment verification, process validation, and complaint handling. Currently, we provide the manufacturer with a formula and manufacturing specifications. ANS sources and purchases raw ingredients and manufactures the products to our specifications. All raw materials are subject to rigorous testing at the time of acquisition and during the manufacturing process for purity. Stability testing is also performed by the manufacturer. Products are then shipped to the distribution center.

The raw materials used in the manufacture of our medical foods are primarily amino acids, which are used in multiple products and are readily available from various sources. Small amounts of botanicals are used in formulations as co-factors. The raw ingredients for our medical foods are sourced from multiple vendors and we have not experienced any shortages in these materials.

Research and Development

We develop candidate formulas for potential medical food products in a process that involves extensive translational research of the existing medical and scientific literature and their applicability to various diseases. We have developed a database that contains in excess of 150,000 peer-reviewed published articles, which we have extracted from various national and international databases and identified as useful in our process of commercializing developments in neuroscience over the past 30 years.

With the database as the basis for formula development, our team of scientists then develops formulas and manufactures prototypes that undergo laboratory testing for safety and efficacy. One of our strengths is the selection of appropriate and relevant testing methodologies. Once a prototype has been created, a small batch is produced and crossover clinical trials are then performed to assess the ability of the new product to produce neurotransmitters using physiologic endpoints. Double blind controlled trials are then performed. The clinical trials are outsourced to an independent contract research organization (CRO) that indentifies and contracts with independent sites throughout the United States that gather appropriate data. Our Scientific Advisory Board reviews data analysis and supervises writing and publication of trial results. All clinical trials are performed with independent Institutional Review Board (IRB) approval. In addition, all trial protocols are submitted to the FDA for review. However, the FDA does not routinely review the submitted protocols because medical foods and the related studies do not require FDA pre-approval and our products are generally recognized as safe and effective.

We file patents for new inventions through our scientists. We also publish both peer-reviewed and internally-generated publications. There are seven pending patent applications including five using TCT technology and two pending patent applications on the billing process. The five pending patent applications using TCT technology are foreign applications to extent the intellectual property protection beyond the United States where these five patents have already been issued.

Our research and development includes performance of early clinical studies and double blind placebo controlled trials. (Studies on therapeutic treatments for pain in human subjects do not permit IRB approval for the use of a placebo arm in clinical trials due to ethics considerations) We maintain an in-house research staff and outsource double-blind trials to an independent clinical research organization. All clinical trials are performed in the United States.

In October 2010, we received an aggregate of approximately $733,000 in grants from the United States federal government under the Qualified Therapeutic Discovery Project (QTDP) tax credit enacted as part of the Patient Protection and Affordable Care Act of 2010. The QTDP tax credit provides companies with a credit or grant of up to 50% of qualified investments made in approved projects in 2010, which permits companies to continue work already in progress. The QTDP tax credit is targeted at biotechnology companies with potential to advance U.S. competitiveness in the fields of medical and biological sciences and likelihood to create high quality and high paying jobs in the United States. A taxpayer may elect to take a grant in lieu of the credit as we did. A qualifying therapeutic discovery project is one that is designed: (i) to treat or prevent diseases or conditions by conducting pre-clinical activities, clinical trials or related activities in an effort to secure product approval by the FDA; (ii) to diagnose or determine molecular factors related to a disease or condition by developing molecular diagnostics to guide therapeutic decisions; or (iii) to develop a product, process or technology to further the administration or delivery of therapeutics. The QTDP credit or grant is in an amount equal to 50% of the qualified investments for a taxable year.

The U.S. Treasury Secretary certified only those projects that showed reasonable potential to develop new therapies that either treat areas of unmet medical need or prevent, detect or treat chronic or acute diseases and conditions, reduce long-term health care costs in the U.S. or advance the goal of curing cancer within the next 30 years. Applications were reviewed by the Internal Revenue Service and the Department of Health and Human Services. One of the grants we received was for the further development of existing formulas to provide pain relief while reducing the addiction potential of opiates using a generic drug co-administered with

a medical food product. The second grant was related to the further development of a product to improve the quality of sleep in the aging population without altering mental clarity and memory using a generic drug co-administered with a medical food product. The third grant related to the further development of a treatment for patients exhibiting symptoms of Gulf War Illness using a generic drug co-administered with a medical food product. Gulf War Illness is a form of brain injury that is associated with neurogenerative disease such as Lou Gehrig Disease and early forms of dementia.

Sales and Marketing

We distribute products through a network of distributors and an internal sales force that sells products directly to dispensing physician clients. There are currently ten distributors selling our products to their networks and four internal sales representatives who sell directly to physicians. Physicians purchase products from PTL for dispensing directly to their patients. Physician Therapeutics also distributes generic and branded pharmaceuticals to physicians in 30-day prepack units that it purchases from wholesalers. This process is referred to as "point-of-care dispensing." We believe that physicians find these solutions attractive because incorporating these systems into their office work flow can increase efficiency and profitability for the practice, reduce medication errors, improve patient compliance and improve the quality of patient care by reducing drug side effects.

Physician Office Distribution

We manufacture and distribute proprietary prescription products directly to dispensing physician medical practices in the United States. We distribute products from our PTL division through an internal sales staff and a network of independent distributors to approximately 940 physicians or physician groups in the United States. A dispensing physician provides and dispenses medications directly to his/her patients. This point-of-care dispensing provides the patient with services that include obtaining patient, prescriptions and receiving medications and allows insurance billing from the physician office. Patients benefit from the convenience and safety of receiving medications directly from their physician. The physicians benefit from the additional revenue stream that is created from the sale of prescription products directly to their patients.

Our propriety dispensing system, *PDRx*, allows physicians to dispense prescription products and generic pharmaceuticals directly to patients using the hardware and software provided in the *PDRx* system rather than by the patient taking a paper prescription to a pharmacy. This is a form of "e-prescribing" that is compatible with electronic records maintenance and is part of current health care reform efforts. In addition, physicians can elect to bill insurance carriers on behalf of their patients through CCPI.

Revenue Models

PTL and its affiliates have a multifaceted business model that generates revenue from a number of different lines of separate, but interconnected business lines. PTL sells its products directly to physicians, as well as to independent distributors that resell the products to physicians. In addition to the sale of products by PTL, CCPI (through assignment from PTL) also offers billing services, contracting and other practice support services, which we collectively refer to as "Support Services", to physicians that purchase PTL's products. Physicians have the option of either solely purchasing PTL's products (whether from PTL or an independent distributor) or purchasing the products and also contracting for Support Services from CCPI. The revenue models related to these different business models are described below.

Physician Purchase Model

In the physician purchase model, PTL sells product to the physician and the physician elects not to receive Support Services. In this model, the purchase agreement has a 45-day invoice period. The physician is responsible to pay the full invoice price by the invoice due date. Under this model, the purchase price per product paid by the physician is less than the per-product price charged under the Physician Managed Model described below. If the invoice is paid within the 45-day period, the physician receives a rapid pay discount. In the event the invoice is paid after the 45-day period, the rapid pay discount is converted into a penalty and interest charge, which means the physician will pay more per product. The products are sold F.O.B. at the place of business of PTL or its fulfiller, such that the physician is responsible for the product at the time it leaves PTL's control. The purchase agreement also provides that the physician grants PTL a security interest

in the product and the proceeds of the product until the physician pays PTL for the purchase of the product. Under this model, PTL accounts for revenue at the rapid pay discount price at time that title for the product passes from PTL to the physician (the time the product leaves the place of business of PTL or its fulfiller). For accounting purposes, PTL recognizes revenue for the sale of the product at the time of transfer of title equivalent to the historical average payment price for the product (after accounting for typically realized rapid pay discounts). PTL has historically reconciled the projected historical average payment price for the product to the actual realized sale price for the product on a quarterly basis.

Physician Managed Model

Under the physician managed model, PTL sells product to the physician and CCPI offers Support Services to the physician. In this model, the purchase agreement provides for a 360-day invoice period, which could be extended up to an additional year if a workers compensation claim is in litigation. CCPI charges the physician a fixed percentage fee for provision of the Support Services, and, since one of the services relates to billing, CCPI deducts from the collections it obtains on behalf of the physician the price for the product to PTL, as well as the Fee to CCPI. If the reimbursement claim filed on behalf of the physician by CCPI is rejected or is otherwise unpaid (unless due to CCPI's fault), the physician is still responsible to pay PTL the price of the product prior to the invoice due date of 360 days. For accounting purposes, PTL recognizes revenue for the sale of the product at the time of transfer of title equivalent to the historical average payment price for the product with a periodic reconciliation. CCPI recognizes revenue for the Fee at the time it is actually deducted from the physician's collections and credited to CCPI's account.

Distributor Purchase Model

In the distributor purchase model, PTL sells product to a distributor, which distributor in turn sells the product to physicians. Under this model, the physicians have elected not to purchase Support Services. In this model, the purchase agreement has a 45-day invoice period. The distributor is responsible to pay the full invoice price by the invoice due date. If the invoice is paid within the 45-day period, the distributor receives a rapid pay discount. In the event the invoice is paid after the 45-day period, the rapid pay discount is converted into a penalty and interest charge, which means the distributor will pay more per product. The products are sold F.O.B. at the place of business of PTL or its fulfiller, such that the distributor is responsible for the product at the time it leaves PTL's control. The purchase agreement also provides that the distributor grants PTL a security interest in the product and the proceeds of the product until the distributor pays PTL for the purchase of the product. Under this model, PTL accounts for revenue at the time that title for the product passes from PTL to distributor (the time the product leaves the place of business of PTL or its fulfiller). For accounting purposes, PTL recognizes revenue for the sale of the product at the time of transfer of title equivalent to the historical average payment price for the product (after accounting for typically realized rapid pay discounts). PTL has historically reconciled the projected historical average payment price for the product to the actual realized sale price for the product on a quarterly basis. These are the general terms of PTL's typical distributor purchase agreement, but an individual distributor's terms may vary from these terms.

Distributor Hybrid Model

In the distributor hyrbid model, PTL sells product to a distributor, which distributor in turn sells the product to physicians, and CCPI offers Support Services directly to the physician. In this case, CCPI will also enter into a Billing and Services Agreement with the physician. CCPI charges the physician the fee for provision of the Support Services and deducts the fee from the collections it receives on behalf of the physician. However, CCPI does not deduct from the collection any amount owed by the physician to the distributor or any amount the distributor owes to the Company. Thus, the distributor must independently pay PTL for the product and independently collect from the distributor's own physician customers. The distributor is still responsible to pay PTL the price of the product prior to the invoice due date regardless of whether the claim is accepted. As with the physician purchase model, PTL recognizes revenue for the sale of the product at the time of transfer of title, equivalent to the historical average payment price for the product in sales to distributors, with a periodic reconciliation. For accounting purposes, CCPI recognizes its Fee at the time it is actually deducted from the physician's collections and credited to CCPI's account. These are the general terms of PTL's typical distributor hybrid purchase agreement, but an individual distributor's terms may vary from these terms.

A la carte Goods and Services

PTL and CCPI also offer some a la carte goods and services to physicians under all the above described models, such as computer hardware and software that assist in dispensing and billing and other services relating to contracting and business management. These goods and services account for a small percentage of the Company's overall revenue and business operations.

U.S. Distributors

There are currently ten distributors selling our products to their networks and four internal sales representative employees who sell directly to physicians. The initial sales of our products were in the California workers compensation market.

Our sales currently are primarily in California, with sales initiatives launched in Nevada, Colorado, Arizona, Illinois, Michigan, Pennsylvania and Florida. We anticipate significant penetration into those states in the coming year and expect to enter additional states in 2011. We primarily market to orthopedic surgeons, pain specialists, rheumatologists treating fibromyalgia and physical medicine specialists. With the initiation of physician dispensing and insurance reimbursement into the private insurance market, we have begun to address internal medicine, primary care medicine, and psychiatry, as well.

We have been collecting reimbursement from the workers compensation systems in California and Florida since 2004. Reimbursement from workers compensation accounts for approximately 75% of our revenue. Our sales are not concentrated to a single distributor or physician.

Foreign Distributors

We have a contract to distribute products in countries in the Middle East region, including rights to distribute into Algeria, Morocco, Tunisia, Bahrain, Egypt, Iraq, Jordan, Kuwait, Libya, Morocco, Oman, Qatar, Saudi Arabia, Sudan, Syria, Tunisia, UAE, Yemen and Turkey. In addition, we have entered into a letter of intent to co-develop a medical food product with a foreign company. Our products are formulated to meet the requirements of each county's regulatory agencies while maintaining the safety and efficacy of the therapeutic agents. Our foreign sales operate with a revenue recognition model distinct to its sales contracts. Our international activities account for less than 1% of our sales but we expect it to grow in the future.

Japan

We distribute our medical food products as concentrated nutrients in Japan through a local distributor, J-Network, Inc., on a non-exclusive basis. Certain products were reformulated to meet Japanese regulatory requirements. For example, Japan does not allow the inclusion of 5-hydroxytryptophan in imported therapeutic products, but does accept L-tryptophan, an ingredient that is not acceptable in the United States as a medical food ingredient. Sales to Japan have increased steadily over the last two years.

Middle East

In March of 2010, we entered into a contract with BioMatrix Pharma Inc. for the sale and distribution of our products into the Middle East Region, exclusive of Israel. Our products are currently in the process of registration in Lebanon and other countries in the region, including Algeria, Morocco, Tunisia, Bahrain, Egypt, Iraq, Jordan, Kuwait, Libya, Morocco, Oman, Qatar, Saudi Arabia, Sudan, Syria, Tunisia, UAE, Yemen and Turkey.

Israel

In October 2010, we entered into a letter of intent with an Israeli company, LycoRed Ltd., to co-develop a medical food product for the management of asthma. We anticipate that this product, when developed and tested, will be marketed initially in the U.S. and later through LycoRed's international network. However, we can provide no assurance that we will successfully develop, test and market this product.

Government Regulation

Statutory Definition and One FDA Regulation

Under the Federal Food, Drug, and Cosmetic Act of 1938 (FFDCA), products are regulated on the basis of their intended use. Their intended use is determined by the objective factors surrounding their use.

Numerous categories and subcategories of products exist under the FFDCA, e.g. food, food additive, dietary supplement, Generally Recognized as Safe (GRAS) food component, new drug, GRAS and Effective (GRAS/E) drug for over the counter use, and GRAS/E drug for use under the supervision of a physician. The categories overlap and products can fall within more than one category depending on their intended use.

The FDA has provided little guidance on the regulation of medical foods, as it is still a relatively new and evolving category of product under the FFDCA.

Our medical food products are defined and regulated by the Food and Drug Administration, or FDA. The term medical food, as defined in Section 5(b) of the Orphan Drug Act is a "food which is formulated to be consumed or administered enterally, or by mouth, under the supervision of a physician and which is intended for the specific dietary management of a disease or condition for which distinctive nutritional requirements, based on recognized scientific principles, are established by medical evaluation." The FDA advises that it considers the statutory definition of medical foods to "narrowly" constrain the types of products that fit within the category of food (see May 2007 Guidance, and Food Labeling; Reference Daily Intakes and Daily Reference Values; Mandatory Status of Nutrition Labeling and Nutrition Content Revision proposed rule.) This is a Final Rule, binding regulation, on nutrition labeling for conventional foods.

The one FDA regulation pertaining to medical foods exempts them from the nutrition labeling requirements that apply to conventional foods, but they are subject to special labeling requirements. Under 21 C.F.R. sec. 101.9 (j)(8),

> (j) The following foods are exempt from this section or are subject to special labeling requirements:
>
> . . . (8) Medical foods as defined in section 5(b) of the Orphan Drug Act. A medical food is a food which is formulated to be consumed or administered enterally under the supervision of a physician and which is intended for the specific dietary management of a disease or condition for which distinctive nutritional requirements, based on recognized scientific principles, are established by medical evaluation. A food is subject to this exemption only if: (i) It is a specially formulated and processed product (as opposed to a naturally occurring foodstuff used in its natural state) for the partial or exclusive feeding of a patient by means of oral intake or enteral feeding by tube; (ii) It is intended for the dietary management of a patient who, because of therapeutic or chronic medical needs, has limited or impaired capacity to ingest, digest, absorb, or metabolize ordinary foodstuffs or certain nutrients, or who has other special medically determined nutrient requirements, the dietary management of which cannot be achieved by the modification of the normal diet alone; (iii) It provides nutritional support specifically modified for the management of the unique nutrient needs that result from the specific disease or condition, as determined by medical evaluation; (iv) It is intended to be used under medical supervision; and (v) It is intended only for a patient receiving active and ongoing medical supervision wherein the patient requires medical care on a recurring basis for, among other things, instructions on the use of the medical food.

Unlike for drugs and for dietary supplements, there is no overall regulatory schema for medical foods, or even a pending proposed rule, meaning that no FDA rulemaking is in progress. However, a very detailed Advanced Notice of Proposed Rulemaking (ANPR) entitled "Regulation of Medical Foods," was published in the Federal Register on Nov. 29, 1996. This ANPR never progressed to a proposed rule, the Notice and Comment procedure, and an eventual Final Rule (binding regulation). However, in the view of our attorneys, it still represents (in conjunction with the May 2007 Guidance) FDA's position and policy on medical foods. This ANPR was in effect withdrawn, because on April 22, 2003, the FDA published a proposal to withdraw numerous long-pending proposed rules, including this ANPR. The FDA cited as its reasons for withdrawal, first, that the subjects are not a regulatory priority, and agency resources are limited, second, the proposed rules have become outdated due to advances in the science or changes in the products or the industry regulated, or changes in legal or regulatory contexts; and, third, to eliminate uncertainty, so that the FDA or the private sector may resolve underlying issues in ways other than those in the proposals. In May 2007, the FDA issued its Guidance to Industry, presumably because the medical foods sector was growing, but it did not engage in a formal rulemaking procedure, either because it did not have the resources and/or because the medical foods category is still lower priority than drugs and medical devices.

Regulatory Requirements

Overview: Medical foods are FDA-regulated, but there is no complete set or schema of regulations. There is no pre-market approval, or even pre-market notification to the FDA required. Rather, it is the responsibility of manufacturer and marketer to test for safety and efficacy before marketing and selling. The developer of a medical food must adhere closely to the statutory definition, and to the descriptions of a medical food in the one regulation regarding exemption from nutrition labeling, and in the May 2007 Guidance. (The parameters for a valid medical food are also spelled out in several FDA Warning Letters, e.g., those sent to Metagenics, Nestle Healthcare.) In the absence of a specific regulatory schema, we and our regulatory counsel have paid close attention to the numerous contrasts with both dietary supplements and with prescription drugs. (See regulation, FDA May 2007 Guidance, and the Warning Letter to Garden of Life.) All elements of the medical food product must indicate that the "intended use" of the product is for the dietary management of a disease, and not for the cure or prevention of a disease.

Threshold Issue: The manufacturer must demonstrate that the disease or condition to be targeted — scientifically, and medically — is a disease with distinctive (or unique) nutritional requirements (ANPR 1996). The FDA has stated that this is a "narrow category," (2007 Guidance, recent Warning Letter to Bioenergy) and that whether a product is valid for this category depends on the published medical science of the disease and its origins. The targeted disease or condition may be, or caused by, a metabolic imbalance or deficiency or the accelerated requirements for a certain nutrient caused by a disease state. Thus, we and our Scientific Advisory Committee begin with a comprehensive in-house report documenting the distinctive nutritional requirements of the disease as the crucial first step in research and development.

Formulation: A medical food may not be a single ingredient formula — otherwise, that product would be a dietary supplement for a nutrient deficiency. (FDA Field Guides) A medical food formula must go beyond a mere modification of the diet. (FDA regulation; 2007 Guidance) The formula must meet/ satisfy the distinctive nutritional requirements, not merely ameliorate the symptoms. For example, Glucosamine or MSM, or an herb's "active" constituent may indeed help osteoarthritis. But first the company must demonstrate that these nutrients are the distinctive nutritional requirements for osteoarthritis. The test is: Does this formula bring the patient from the abnormal condition or disease state (with distinctive nutritional requirements) back to the equilibrium of a healthy state?

Safety: There are no particular or mandated FDA pre-market safety studies required of the formula as a whole. However, all ingredients must be either GRAS or approved food-additives. (See FDA letter to Industry (2001) regarding no botanicals or "novel" ingredients permitted in "functional foods"; and the ANPR. Since medical foods are typically taken with prescription drugs, the developer must assess whether any medical food/drug interactions pose a risk assessment. Many ingredients have been determined by the FDA to be GRAS and are listed as such by regulation. Other ingredients may achieve self-affirmed GRAS status through a panel of experts on that particular substance that author a GRAS Report. The standard for an ingredient to achieve GRAS status requires not only technical demonstration of non-toxicity and safety, but also general recognition and agreement on that safety by experts in the field. All ingredients used us in our medical foods are either FDA-approved food additives or have GRAS status. Note that the GRAS requirement for ingredients (above) is arguably a higher safety standard than the risk/benefit analysis required for pharmaceuticals. Like any evolving area, especially where no premarket approval is required, the FDA reserves the right to raise questions about the qualification of products within any category as well as the labeling, manufacturing safety, of those products. A variety of informal and formal legal options exist for the Agency to raise these issues. For medical foods, the FDA has taken little regulatory action, although questions about the manufacture and labeling of such products have arisen.

Efficacy: No particular FDA pre-market efficacy studies are required by the FDA or by Congressional statute, similar to or comparable to Phase 2 & 3 trials for prescription drugs. But a company must have clinical trials or other tests to demonstrate that the formula, when taken as directed, meets the distinctive nutritional requirements of the particular disease. The test for effectiveness may be amelioration of the "endpoints of the disease". In terms of the standard for substantiation of claims, the FDA has stated that the level of evidence must be at least as high as that to support an unqualified health claim, which is "significant scientific agreement."

Manufacturing: There are no "good manufacturing practice" (GMP) regulations for medical foods in particular. Drug GMPs are not required, nor are the relatively new dietary supplement GMPs required; only food GMPs are required. But note the "medical foods paradox" spelled out in the ANPR. The paradox is that medical foods are intended for a vulnerable patient population, under a physician's care, and yet there are no specific FDA regulations for this category of product, whereas there are very specific and rigorous regulations and requirements for the manufacture and labeling of conventional foods. We use a state of the art facility, which manufactures only nutritional supplements and medical foods.

Labeling: As for all food labels, printing must be legible, and many required elements must be conspicuous:

- Statement of Identity: is MEDICAL FOOD For the dietary management of _____
- Must include: "Must be administered under the supervision of a physician."
- An accurate statement of the net quantity of contents
- Ingredient listing (in the absence of both a required Nutrition Facts box or a Supplement Facts box — no complete set of labeling regulations for medical foods exist yet). See 2007 Guidance:

  "Medical foods are foods and therefore their label must contain a statement of identity (the common or usual name of the product) (21 CFR 101.3), an accurate statement of the net quantity of contents (21 CFR 101.105), the name and place of business of the manufacturer, packer, or distributor (21 CFR 101.5), and a complete list of ingredients, listed by their common or usual name and in descending order of predominance (21 CFR 101.4). In addition, all words, statements, and other information required by or under authority of the Federal Food, Drug, and Cosmetic Act (FFDCA) to appear on a label or labeling of a medical food must appear with prominence and conspicuousness (21 CFR 101.15). . . . Medical foods also must be labeled in conformance with the principal display panel requirements (21 CFR 101.1), the information panel requirements (21 CFR.101.2), and the misbranding of food requirements (21 CFR 101.18)."
- Distributed by: [Co. Name and Mailing Address] (2007 Guidance). Reporting of serious adverse events is voluntary, not required; so a toll-free number is not required.
- If the formula contains or is derived from any of the 8 major allergens, the ingredient list must contain or be followed by a prominent caution, e.g., CONTAINS WHEAT. (Food Allergen Labeling and Consumer Protection Act of 2004, and May 2007 FDA Guidance)
- The Directions must be clear and precise, e.g., Take 2 capsules in the morning with other food, or as directed by your physician. (2007 Guidance)
- Many companies include the Rx symbol or "Rx only" but there is no precise law currently on this. There is no explicit requirement for prescription only, though this is implied by statute; medical foods may not be sold in mainstream stores or over-the-counters, because supervision of physician is required on an on-going basis.
- Many companies include a package insert or prescribing information in the box (but there is no law on this issue

Marketing: A medical food is a food product thus, the FDA does not regulate advertisements and promotional activities according to the pharmaceutical statutes and regulations; there is no side effects Disclaimer or fair balancing required, e.g., in DTC advertising of drugs on television. However, the FDA has a very broad definition of "labeling"; thus all promotional materials, including websites, are under the authority, monitoring and enforcement of FDA. The Federal Trade Commission (FTC) also has joint jurisdiction with the FDA over food products, per a 1983 Memorandum of Understanding. Thus, all advertising claims — both express and implied — must be true, accurate, well-substantiated, and not misleading. All websites, print ads, infomercials, exhibit booth materials, testimonials, and endorsements must be reviewed by the regulatory counsel with both an FDA and an FTC perspective. A company must be careful re. disseminating "off-label use" materials, i.e., as a drug or a drug alternative.

Enforcement: Enforcement is post-market, mostly via annual FDA inspections of food facilities — including packaging, distribution facilities, and fulfillment houses, as well as the manufacturer. (Field Guides for Compliance) But see FDA Warning Letters sent to Efficas: FDA also gathers material at trade shows/ conferences, and examines websites. FTC has joint jurisdiction, and performs sophisticated Internet searches, both randomly and at the request of the FDA or of a competitor.

Medical Foods and Pharmaceuticals

Medical foods are distinguished from the broader category of foods for special dietary use and from foods that make health claims by the requirement that medical foods be intended to meet distinctive nutritional requirements of a disease or condition, be used under medical supervision and intended for the specific dietary management of a disease or condition. To be considered a medical food, a product must, at a minimum, meet the following criteria: the product must be a food for oral or tube feeding; the product must be labeled for the dietary management of a specific medical disorder, disease or condition for which there are distinctive nutritional requirements; and the product must be intended to be used under medical supervision (see regulation, above).

Additionally, we are licensed by the FDA as a pharmaceutical re-packager and the company is permitted to purchase and re-distribute scheduled medications and package and re-label products. We are subject to periodic inspections of facilities, marketing materials and products by FDA inspectors; these are routine inspections conducted without prior notice every one or two years.

Pharmaceutical companies have significant risk in launching new drugs due to the enormous development and regulatory costs. These risks and costs are in “time to marketplace”, clinical trial risk, and regulatory approval risk. It is estimated that a new pharmaceutical’s cost can range up to $1 Billion per product from the time of inception to market introduction. Regulatory approval can take up to fifteen years after the identification of a New Chemical Entity (NCE) and the initiation of the development cycle. Patents are filed at the inception of the process; and depending upon the development time, the patent life at the time of approval is limited to a decade or less. Medical foods in the United States do not require pre-market approval prior to product launch, but formulas are required to be based on recognized scientific principles. Clearly, the time and cost from inception to market for medical foods are significantly less.

Claims for both medical foods and drugs must be supported by scientific data or clinical data. Medical foods may also have intrinsic safety obtained through “generally recognized as safe” (GRAS) status of the ingredients, including the common use of the food or food component in people. For GRAS/E products that have been used for a material time and extent or under the supervision of a physician the support for the use can be provided by scientific or clinical data. No premarket approval by FDA is required. By contrast, the safety and therapeutic claims of a product labeled for a new drug use, i.e., one that is not GRAS/E must be pre-approved by the FDA through extensive clinical testing in animals and then humans.

Thus, for a medical food (or, e.g., a GRAS/E prescription product), the FDA requires scientific data and often human clinical studies to substantiate claims but preapproval by the Agency to market the product is not required. Claims for both medical foods and drugs must be supported by solid laboratory and clinical data. Medical foods have intrinsic safety obtained through “generally recognized as safe” (GRAS) status of the ingredients, including use of the food or food additive in millions of people. By contrast, the safety and therapeutic claims of a product labeled a drug must be pre-approved by the FDA through extensive clinical testing in animals and then humans.

For a medical food, the FDA implies that human clinical studies are required, per the FDA’s ANPR (above), and based on the manufacturer’s and marketer’s responsibility that any health/ medical product be demonstrated to be efficacious before it is marketed and sold. This is a fundamental principle under both the FDA and the FTC, for all health-related products

Medical foods are administered and supervised by physicians, allowing a range of existing human studies to be used to support claims. The standard for medical foods allows use of published science from a variety of sources to support disease and nutritional functional deficiency claims. Our ingredients and formulas are well-researched and supported by voluminous scientific literature, in-house Monographs, and clinical trials.

We have followed the regulatory compliance counsel from the beginning of its research and development on medical foods.

Point-of-Care Dispensing by Physicians

In 44 out of 50 states in the U.S., physician dispensing of prescription drugs is legal subject to specified regulations. In six other states, there are restrictions on this practice and, in Utah, the restrictions are severe enough that, in practical terms, physician dispensing is effectively prohibited altogether. In September of 2010, Utah promulgated rules for revisions of their laws to allow for physician dispensing of approved drugs. Texas, New York and New Jersey have limitations on the number of units that may be dispensed at any one time.

Many of the states allowing physician dispensing for profit have regulations relating to licensure, storage, labeling, record keeping and the degree of supervision required by the physician over support personnel who assist in the non-judgmental tasks associated with physician dispensing, such as retrieving medication bottles and affixing labels. We regularly monitors these laws and regulations, in consultation with legal counsel and the governing agencies, to assist customers in understanding them so that they can materially comply.

Stark II

Congress enacted significant prohibitions against physician self-referrals in the Omnibus Budget Reconciliation Act of 1993. This law commonly referred to as "Stark II," applies to physician dispensing of outpatient prescription drugs that are reimbursable by Medicare or Medicaid. Stark II, however, includes an exception for the provision of in-office ancillary services, including a physician's dispensing of outpatient prescription drugs, provided that the physician meets the requirements of the exception.

Good Manufacturing Practices

The Company is subject to regulation by and licensure with the FDA, the DEA and various state agencies. Among the regulations applicable to the Company are the FDA's "good manufacturing practices." Medical foods must comply with all applicable requirements for the manufacture of foods, including the Current Good Manufacturing Practices regulations and Registration of Food Facilities requirements. Ingredients used in medical foods must be approved food additives or a food additive that is subject to an exemption for investigational use if the ingredients are not GRAS.

Anti-Kickback Statute and HIPAA Criminal Laws

We are subject to various federal and state laws pertaining to health care "fraud and abuse." The federal Anti-Kickback Statute makes it illegal for any person, including a pharmaceutical, biologic, or medical device company (or a party acting on its behalf), to knowingly and willfully solicit, offer, receive or pay any remuneration, directly or indirectly, in exchange for, or to induce, the referral of business, including the purchase, ordering or prescription of a particular item or service, or arranging for the purchase, ordering, or prescription of a particular item or service for which payment may be made under federal healthcare programs such as Medicare and Medicaid. In 1996, under the Health Insurance Portability and Accountability Act (HIPAA), the Anti-Kickback Statute was expanded to be made applicable to most federal and state-funded health care programs. The definition of "remuneration" has been broadly interpreted to include any item or service of value, including but not limited to gifts, discounts, the furnishing of free supplies or equipment, commercially unreasonable credit arrangements, cash payments, waivers of payments or providing anything at less than its fair market value. Several courts have interpreted the Anti-Kickback Statute's intent requirement to mean that if any one purpose of an arrangement involving remuneration is to induce referrals of business reimbursable by a federal healthcare program, the statute has been violated. Penalties for violations include criminal penalties, civil sanctions and administrative actions such as fines, imprisonment and possible exclusion from Medicare, Medicaid and other federally-funded healthcare programs. In addition, some kickback allegations have been held to violate the federal False Claims Act, which is discussed in more detail below.

The federal Anti-Kickback Statute is broad and prohibits many arrangements and practices that may be lawful in businesses outside of the healthcare industry. Recognizing that the Anti-Kickback Statute is broad and may technically prohibit many innocuous and beneficial arrangements, Congress created several exceptions in the Social Security Act and has authorized the U.S. Department of Health and Human Services

(HHS) to publish regulatory "safe harbors" that exempt certain practices from enforcement action under the Anti-Kickback Statute prohibitions. For example, there are safe harbors available for certain discounts to purchasers, personal services arrangements and various other types of arrangements. However, safe harbor protection is only available for transactions that satisfy all of the narrowly defined safe harbor provisions applicable to the particular remunerative relationship. We seek to comply with such safe harbors whenever possible. Conduct and business arrangements that do not strictly comply with all the provisions of an applicable safe harbor, while not necessarily illegal, face an increased risk of scrutiny by government enforcement authorities and an ongoing risk of prosecution.

In addition, many states have adopted laws similar to the federal Anti-Kickback Statute. Some of these state prohibitions apply to referral of patients for healthcare services reimbursed by any third-party payer, not only the Medicare and Medicaid programs or other governmental payers. At least one state, California, also has adopted a law requiring pharmaceutical companies to implement compliance programs to prevent and deter conduct that may violate fraud and abuse laws that comply with the voluntary industry guidelines and the Office of Inspector General (OIG) compliance guidance. While we believe we have structured our business arrangements to comply with these laws, it is possible that the government could find that such arrangements violate these laws, which could have a material adverse effect on our business, results of operations and financial condition.

HIPAA created two new federal crimes: health care fraud and false statements relating to health care matters. The health care fraud statute prohibits knowingly and willfully executing a scheme to defraud any health care benefit program, including private payers. A violation of this statute is a felony and may result in fines, imprisonment or exclusion from federal and state health care programs such as Medicare and Medicaid. The false statements statute prohibits knowingly and willfully falsifying, concealing or covering up a material fact or making any materially false, fictitious or fraudulent statement in connection with the delivery of or payment for health care benefits, items or services. A violation of this statute is a felony and may result in fines or imprisonment. Additionally, HIPAA granted expanded enforcement authority to HHS and the U.S. Department of Justice (DOJ) and provided enhanced resources to support the activities and responsibilities of the OIG and DOJ by authorizing large increases in funding for investigating fraud and abuse violations relating to health care delivery and payment.

HIPAA Compliance and Privacy Protection

The Health Insurance Portability and Accountability Act of 1996 (HIPAA) established for the first time comprehensive federal protection for the privacy and security of health information. The HIPAA standards apply to three types of organizations, or "Covered Entities:" health plans, health care clearing houses, and health care providers who conduct certain health care transactions electronically. Covered Entities must have in place administrative, physical and technical standards to guard against the misuse of individually identifiable health information. Additionally, some state laws impose privacy protections more stringent than HIPAA's. There are also international privacy laws, such as the European Data Directive, that impose restrictions on the access, use, and disclosure of health information. All of these laws may impact our business. We are a Covered Entity subject to HIPAA privacy and security standards. Our activities must also comply with other applicable privacy laws. Our failure to comply with these privacy laws or significant changes in the laws restricting our ability to obtain tissue specimens and associated patient information could significantly impact our business and our future business plans. We maintain strict procedures and policies to remain compliant with these patient confidentiality requirements.

HITECH Act

The Health Information Technology for Economic and Clinical Health (HITECH) Act promotes the adoption and meaningful use of health information technology. The HITECH Act addresses the privacy and security concerns associated with the electronic transmission of health information, in part, through several provisions that strengthen the civil and criminal enforcement of the HIPAA rules.

The HITECH Act establishes four categories of violations that reflect increasing levels of culpability and four corresponding tiers of penalty amounts that significantly increase the minimum penalty amount of each violation. The maximum penalty amount is $1,500,000 for repeated violations of the same provision. In addition, the HITECH Act permits the imposition of penalties if the Covered Entity did not know, and with

the exercise of reasonable diligence, would not have known, of the violation. Such violations are now punishable under the lowest tier of penalties. In addition, the HITECH Act prohibits the imposition of penalties for violations corrected within a 30-day period so long as those violations were not due to willful neglect.

False Claims Laws

Pursuant to various federal and state false claims laws, the submission of false or fraudulent claims for payment may lead to civil money penalties, criminal fines and imprisonment, and/or exclusion from participation in Medicare, Medicaid and other federally funded health care programs. These false claims statutes include the federal False Claims Act, which allows the federal government or private individuals to bring suit alleging that an entity or person knowingly submitted (or caused another person or entity to submit or conspired to submit) a false or fraudulent claim for payment to the federal government or knowingly used (or caused to be used) a false record or statement to obtain payment from the federal government. The federal False Claims Act may also be violated if a person files a false statement in order to reduce, avoid, or conceal an obligation to pay money to the federal government, or engages in conduct that may violate the Anti-Kickback Statute. Several pharmaceutical and medical device companies have settled claims based on the federal False Claims Act for conduct involving, among other examples, providing free product to purchasers with the exception that federally-funded health programs would be billed for the product, or instances in which a manufacturer has marketed its product for unapproved and non-reimbursable purposes. A person who files suit may be able to share in amounts recovered by the government in connection with such suits. Such suits, known as *qui tam* actions, have increased significantly in recent years and have increased the risk that a health care company will have to defend a false claims action, enter into settlements that may include corporate integrity agreements requiring disclosures to the federal government, pay fines or be excluded from the Medicare and/or Medicaid programs as a result of an investigation arising out of such an action. The scope of the federal false Claims Act was significantly expanded in both the Fraud Enforcement and Recovery Act of 2009, Pub. L. No. 111-21 (2009), and in the Patient Protection and Affordable Care Act of 2010, Pub. L. No. 111-148 (2010). In addition, a number of states have enacted similar laws prohibiting the submission of false or fraudulent claims to a state government. We are not aware of any qui tam actions pending against us. However, no assurance can be given that such actions may not be filed against us in the future, or that any non-compliance with such laws would not have a material adverse effect on our business, results of operations and financial condition.

State Regulatory Requirements

Each state has its own regulations concerning physician dispensing, restrictions on the corporate practice of medicine, anti-kick back and false claim regulations. In addition, each state has a board of pharmacy that regulates the sale and distribution of drugs and other therapeutic agents. Some states require that a physician obtain a license to dispense prescription products. When considering the commencement of business in a new state, we solicit the opinion of healthcare counsel regarding the expansion of operations into that statement and utilize local counsel when necessary.

Other United States Regulatory Requirements

In the United States, the research, manufacturing, distribution, sale, and promotion of drug and biological products are subject to regulation by various federal, state, and local authorities in addition to the FDA, including the Centers for Medicare and Medicaid Services (formerly the Health Care Financing Administration), other divisions of the United States Department of Health and Human Services (e.g., the Office of Inspector General), the United States Department of Justice and individual United States Attorney offices within the Department of Justice, and state and local governments. Pricing and rebate programs must comply with the Medicaid rebate requirements of the Omnibus Budget Reconciliation Act of 1990 and the Veterans Health Care Act of 1992, each as amended. If products are made available to authorized users of the Federal Supply Schedule of the General Services Administration, additional laws and requirements apply. All of these activities are also potentially subject to federal and state consumer protection, unfair competition, and other laws. In addition, we may be subject to federal and state laws requiring the disclosure of financial arrangements with health care professionals.

California Board of Pharmacy

We maintain an active Wholesale Pharmacy License in California. A wholesaler permit is required before any company selling dangerous drugs or devices for resale or distribution in California may do business in California.

Foreign Regulatory Requirements

We may be subject to widely varying foreign regulations, which may be quite different from those of the FDA, governing clinical trials, manufacture, product registration and approval, and pharmaceutical sales. Whether or not FDA approval has been obtained, we must obtain a separate approval for a product by the comparable regulatory authorities of foreign countries prior to the commencement of product marketing in these countries. In certain countries, regulatory authorities also establish pricing and reimbursement criteria. The approval process varies from country to country, and the time may be longer or shorter than that required for FDA approval.

Reimbursement and Pricing Controls

In many of the markets where we would commercialize a product, the prices of pharmaceutical products are subject, by law, to direct price controls and to drug reimbursement programs with varying price control mechanisms. Public and private health care payers control costs and influence drug pricing through a variety of mechanisms, including the setting of reimbursement amounts for drugs and biological products covered by Medicare Part B based on their Average Sales Prices calculated by manufacturers in accordance with the Medicare Prescription Drug, Improvement, and Modernization Act, as amended, through negotiating discounts with the manufacturers, and through the use of tiered formularies and other mechanisms that provide preferential access to certain drugs over others within a therapeutic class. Payers also set other criteria to govern the uses of a drug that will be deemed medically appropriate and therefore reimbursed or otherwise covered. In particular, many public and private health care payers limit reimbursement and coverage to the uses of a drug that are either approved by the FDA or that are supported by other appropriate evidence (for example, published medical literature) and appear in a recognized drug compendium. Drug compendia are publications that summarize the available medical evidence for particular drug products and identify which uses of a drug are supported or not supported by the available evidence, whether or not such uses have been approved by the FDA. For example, in the case of Medicare coverage for physician-administered oncology drugs, the Omnibus Budget Reconciliation Act of 1993, with certain exceptions, prohibits Medicare carriers from refusing to cover unapproved uses of an FDA-approved drug if the unapproved use is supported by one or more citations in the American Hospital Formulary Service Drug Information, the American Medical Association Drug Evaluations, or the United States Pharmacopoeia Drug Information. Another commonly cited compendium, for example under Medicaid, is the DRUGDEX Information System.

The foregoing description of laws and regulations affecting health care companies is not meant to be an all-inclusive discussion of aspects of federal and state fraud and abuse laws that may affect our business, results of operations and financial condition. Health care companies operate in a complicated regulatory environment. These or other statutory or regulatory initiatives may affect our revenues or operations. No assurance can be given that our practices, if reviewed, would be found to be in compliance with applicable fraud and abuse laws (including false claims laws and anti-kickback prohibitions), as such laws ultimately may be interpreted, or that any non-compliance with such laws or government investigations of alleged non-compliance with such laws would not have a material adverse effect on our business, results of operations and financial condition.

FDA Warning Letter

PTL received a warning letter from the FDA on April 8, 2010 related to our convenience-packed products. To facilitate discussions with the FDA, we voluntarily stopped providing our physician clients with completed convenience packs. We responded to the FDA on April 24, 2010 and met with the FDA on August 3, 2010. We then corresponded with the FDA on August 24, 2010 and September 13, 2010 with a plan to addresses the FDA's concerns about our convenience-packed products. We agreed to remove from our patient materials and promotional materials a claim that the co-administration of our medical foods with the prescription drug could reduce the dose of the prescription drug. We further agreed to refrain from providing

any materials that would promote any off-label use of a prescription drug, including both indication and dose of the drug. There is no certainty whether the FDA will raise additional objections about our convenience-packed products. There is no prohibition against physicians prescribing a medical food product contemporaneously with a drug regulated by the FDA. At all times, our dispensing physician clients could provide the medical food and prescription drug in a convenience pack in their practice of medicine.

Competition

We provide services in a segment of the healthcare industry that is highly fragmented and extremely competitive. Our actual and potential competitors in the United States and abroad may include major specialty pharmaceutical, biotechnology, packaged food and medical food companies such as Nestle Nutrition, PamLab LLC, Primus Pharmaceuticals Inc., Neptune Technologies & Bioresources Inc., Abbot Nutrition and Accera Inc. Many of our potential competitors have considerably greater financial, technical, marketing, research and other resources than we do, which may allow these competitors to discover important information and technology before we do. It is anticipated that competition will continue to increase due to such factors as increased consumer awareness and company publications. Our competitors may succeed in developing products that circumvent our technologies or product candidates. Also, our competitors may succeed in developing technologies or products that are more effective than those that will be developed by us or that would render our technology or product candidates less competitive or obsolete.

In addition, we are developing our product candidates to complement certain methods for treating various conditions. If those methods change, it is likely that the demand for our services and product candidates would significantly decline or cease altogether. The development of new or superior competing technologies or products, or a change in the methodology of treating the ailments that our products address, could affect our competitive position and harm our business. Moreover, these competitors may offer broader product lines and have greater name recognition than us and may offer discounts as a competitive tactic.

Additionally, several development-stage companies are currently making or developing product candidates that compete with or will compete with our potential products. Competitors may succeed in developing, obtaining approval from the FDA or marketing technologies or products that are more effective or commercially attractive than our potential products or that render our technologies and current or potential products obsolete. Competitors may also develop proprietary positions that may prevent us from commercializing product candidates.

We believe that there are no competitors in medication management that offer a comprehensive solution with ease of use, accessibility, information content and financial opportunity for physicians comparable ours, especially the availability of patented medical food and medical food convenience-packs. However, several organizations offer components that overlap with certain components of our solutions and may become increasingly competitive in the future.

Employees

We had 50 full-time employees as of February 14, 2011, of whom 34 were in product development, operations, and engineering, 5 in sales and marketing, and 11 in general, administrative and executive management. In addition, we make use of a varying number of temporary employees and outsourced services to manage the normal growth and decline of staff requirements. None of these employees is covered by a collective bargaining agreement and our management considers relations with employees and services partners to be good.

Facilities

We lease approximately 4,594 square feet of office space in Los Angeles, California to house our administrative, marketing and product development activities. We pay $12,716 per month in rent in Los Angeles, under a lease that expires in February 28, 2012.

Legal Proceedings

We are not involved in any pending or threatened legal proceedings.

MANAGEMENT

Name	Age	Position
Elizabeth Charuvastra	66	Executive Chairman, Vice President Regulatory Affairs and Director
William Shell, M.D.	68	Chief Executive Officer and Chief Scientific Officer and Director
Kim Giffoni	59	Executive Vice President of Foreign Sales and Investor Relations and Director
Steve B. Warnecke	53	Chief Financial Officer
Amir Blachman	39	Vice President of Strategy and Operations
Maurice J. DeWald	70	Director
Donald J. Webster	56	Director
Arthur R. Nemiroff	67	Director
John H. Bluher	53	Director

Background

The following is a brief summary of the background of our directors and named executive officers:

Elizabeth Charuvastra is our Executive Chairman and Vice President of Regulatory Affairs and a director. Ms. Charuvastra is a founder of TMP and has served as Chairman of the Board of Directors and Executive Vice President of Regulatory Affairs of TMP since December 1999. Ms. Charuvastra is a Registered Nurse and inventor. Prior to assuming her current responsibilities with our company, Ms. Charuvastra founded and served as president of Beverly Glen Medical Systems, a California-based national cardiac monitoring company, from May 1990 to October 1999. Under Ms. Charuvastra's direction, Beverly Glen Medical Systems developed new technologies in high resolution continuous EKG (Holter) monitoring. This innovative technology has been used to assess the safety of new pharmaceutical agents during the FDA approval process. The technology is also used by Targeted Medical Pharma for objective, quantitative analysis of cardiac and autonomic nervous system function in product development studies and clinical trials.

Ms. Charuvastra is co-inventor with Dr. William Shell of the technology used in TMP's amino acid-based products and holds 5 patents on this process. Ms. Charuvastra is the author of a number of publications, abstracts and presentations on subjects that include risk of sudden death related to QT interval prolongation, and Heart Rate Variability testing associated with Gulf War illness. More recent publications include peer reviewed papers on the Company's amino acid based therapeutic systems. Ms. Charuvastra received her degree in nursing and her degree in nurse midwifery from Royal Canberra Hospital in Australia. Ms. Charuvastra is married to Dr. Shell. Ms. Charuvastra's experience as a founder of our Company, co-developer of our Company's scientific applications and developer of risk management strategies leads us to conclude that she would make significant contributions as a director.

William E. Shell, M.D. is our Chief Executive Officer and Chief Scientific Officer and a director. Dr. Shell has served as Chief Executive Officer, Chief Scientific Officer and a director of TMP since July 2000. Dr. Shell is a board-certified cardiologist and an inventor. Dr. Shell attended the University of Michigan and University of Michigan Medical School from June 1960 until July 1967, where he obtained a Degree in Cell Biology and an MD. He completed his Internal Medicine Residency at University Hospital Ann Arbor Michigan in June 1970. He completed his Cardiovascular Disease Fellowship at the University of California, San Diego in 1973 and became Board Certified in Internal Medicine and Cardiology in 1973. Dr. Shell was an officer on active duty in the United States Air Force for two years from July 1973 until June 1975. During his tenure in the United States Air Force, Dr. Shell served as the first American physician in the American Soviet Exchange Program and as the director of the coronary care unit at Keesler Air Force Base in Mississippi, for which work Dr. Shell received a Presidential Citation from President Nixon. Dr. Shell joined Cedars Sinai Medical Center in July 1975 as the Coronary Care Unit Director and Director of the Cardiovascular Biochemistry Research Laboratories. From July 1982 to June 1990, Dr. Shell served as Director of Cardiac Rehabilitation and an attending Cardiologist at Cedars-Sinai Medical Center in Los Angeles, California. From July 1975 until June 1983, Dr. Shell served as an Associate Professor of Medicine at UCLA School of Medicine. From July 1975 to July 1985, Dr. Shell served as an Associate Cardiologist at Cedars-Sinai Medical Center. From September, 1991 to August 1994, Dr. Shell served as chairman and chief scientific officer of Interactive Medical Technologies (OTCBB:IMT). From 1987 until

August 1999 Dr. Shell served as Chief Scientific Officer of Beverly Glen Medical Systems. Since July 2000, Dr. Shell has served as the Chief Scientific Officer of TMP. Since June 2006 Dr. Shell has served as the Chief Executive Officer of TMP.

In November 2003, Dr. Shell filed for Chapter 7 Bankruptcy. This bankruptcy filing related to a 1998 marital distribution agreement entered into in connection with Dr. Shell's divorce that was based on the projected stock value of IMT stock. There were no other significant debts in the bankruptcy.

Dr. Shell is married to Ms. Elizabeth Charuvastra. Dr. Shell's extensive background in science and medicine, his role as co-investor of our Company's patented technology, his experience in the formation of new companies and his leadership in managing our Company as Chief Executive Officer leads us to conclude that he would make significant contributions as a director.

Please see the section entitled "*Business — Background of Dr. Shell*" for additional information.

Kim Giffoni is our Executive Vice President of Foreign Sales and Investor Relations and a director. Mr. Giffoni is a founder of TMP and served as President and Chief Operating Officer and a director of TMP from December 1999 to December 2010. Since December 2010, Mr. Giffoni has served as Executive Vice President of Foreign Sales and Investor Relations of TMP. Prior to assuming his current responsibilities, from April 1996 to May 1999, Mr. Giffoni served as president of NutraCorp Scientific, Inc., a dietary supplement company marketing and selling nutritional products worldwide. From January 1983 to March 1996, Mr. Giffoni founded and served as president of Giffoni Development Company. Under Mr. Giffoni's direction the company profitability developed and sold multi-million dollar residences in Southern California. From 1980 through 1983 Mr. Giffoni served as an advertising manager of Herald Community Newspapers supervising advertising insert flow into fifteen local newspapers throughout Southern California. Prior to working for the Los Angeles based Herald Community Newspapers, from 1972 through 1979, Mr. Giffoni served as adverting director of the Las Virgenes Enterprise Newspaper Group and co-founded the weekly newspaper Malibu Surfside News. Mr. Giffoni earned a Bachelor of Arts in Communications from California State University at Northridge. Mr. Giffoni is a former professional baseball player for the Kansas City Royals Professional Baseball Club and is a commercially-rated helicopter plot. Mr. Giffoni's role as a founding member of the Company, his experience in sales and marketing and his background in business development leads us to conclude that he would make significant contributions as a director.

Steve B. Warnecke is our Chief Financial Officer. He also has served, since November 2010 as chief executive officer of Evolutionary Genomics, Inc. (a private company involved in genetic research for agricultural crops). From March 2003 to January 2011, Mr. Warnecke served as a director of Evolving Systems, Inc. (NasdaqCM:EVOL), a provider of software solutions and services to the wireless, wireline and cable markets. From November 2008 to May 2010, Mr. Warnecke served as chief financial officer of Bacterin International, Inc. (BIHI.PK) a company focused on biomaterials research and development and commercialization. From April 2002 to April 2009, he served as chief financial officer of The Children's Hospital Foundation, a Colorado not-for-profit foundation. Mr. Warnecke also serves as chairman of Children's Partners Foundation and serves on the board of directors of the Cystic Fibrosis Foundation. In addition, from August 2001 through January 2002, Mr. Warnecke served as senior vice president — strategic planning for First Data Corp.'s Western Union subsidiary. From August 1999 through June 2001, Mr. Warnecke served as chief financial officer for Denver-based Frontier Airlines. Mr. Warnecke spent the first twenty years of his career, 1979 – 1999, in financial management and chief executive officer positions in the construction industry after graduating in 1979 from the University of Iowa with a Bachelor of Business Administration degree and passing the C.P.A. exam.

Amir R. Blachman is our Vice President of Strategy and Operations. Mr. Blachman joined TMP as Vice President of Operations in February 2010. Since July 2010, he has served as TMP's Vice President of Strategic Planning and acting Chief Financial Officer. Prior to assuming his responsibilities at TMP, Mr. Blachman established himself as a real estate investment professional from 2003 to 2010. From May 2008 to December 2008 he served as Director of Acquisitions for MJL Capital, LLC. From February 2006 to May 2007, Mr. Blachman managed investor communications and acquisitions analysis for Columbus Pacific Properties, LLC. Mr. Blachman is the author of a real estate finance textbook and lectures on the topic.

From February 2001 to August 2001, he served as Operations Director and Assistant to the CTO at WeddingChannel.com. From October 1999 to December 2000, Mr. Blachman served as Director of Operations at PeopleSupport.com (Nasdaq: PSPT). From July 1997 to March 1999, he served as Supervisor of Broker Services at Franklin Templeton Mutual Funds (NYSE:BEN).

Mr. Blachman earned a Bachelor of Arts in Psychology with an emphasis in Neuropharmacology from the University of California Santa Barbara and a Masters in Business Administration from UCLA Anderson School of Management. He is a volunteer Big Brother, a speaker at the Association for Strategic Planning and is a workgroup member of the National Council for Prescription Drug Programs.

Maurice J. DeWald has served as a director since February 2011. Since June 1992, Mr. DeWald has served as the chairman and chief executive officer of Verity Financial Group, Inc., a financial advisory firm with a primary focus on the healthcare and technology sectors. Mr. DeWald also serves as a director of Mizuho Corporate Bank of California, as non-executive Chairman of Integrated Healthcare Holdings, Inc. and Healthcare Trust of America, Inc. Mr. DeWald also previously served as a director of Tenet Healthcare Corporation, ARV Assisted Living, Inc. and Quality Systems, Inc. From 1962 to 1991, Mr. DeWald worked with the international accounting and auditing firm of KPMG, LLP, where he served at various times as an audit partner, a member of the board of directors and managing partner of the Orange County, California, Los Angeles, California and Chicago offices. Mr. DeWald has served as chairman and director of both the United Way of Greater Los Angeles and the United Way of Orange County California. Mr. DeWald holds a Bachelor of Arts degree in Accounting and Finance from the University of Notre Dame and is a member of its Mendoza School of Business Advisory Council. Mr. DeWald is a Certified Public Accountant (inactive), and is a member of the California Society of Certified Public Accountants and the American Institute of Certified Public Accountants. Mr. DeWald's experience as a director of companies focused on health care, which familiarized him with the regulatory framework within which we work, as a financial advisor to the healthcare industry as well as his education and experience in accounting leads us to conclude that he would make significant contributions as a director.

Donald J. Webster has served as a director since February 2011. Prior to assuming his current responsibilities, from July 1977 to September 2003, Mr. Webster served in various positions at Chevron Corporation, an international energy company, including, most recently, as general manager of procurement. Mr. Webster also served in production operations management, new business opportunities assessment, and supply chain management in the United States and abroad during his tenure at Chevron. Mr. Webster has directed complex oil and gas operations in various developing countries. He also had responsibility for the development and implementation of supply chain and contracting strategies for the Chevron Corporation. When he served as general manager of supply chain management, Mr. Webster was responsible for leading improvements in Chevron's $6 billion annual spending on supplies and services and also directed several company-wide strategic sourcing initiatives. As general manager of supply chain management at the corporate level, Mr. Webster guided in-depth internal reviews of Chevron's shared financial services activities (including Chevron's in-house credit card business), business and real estate company. In March 2004, Mr. Webster founded Webster Consulting Services, LLC, which provides general, operational management and supply chain guidance for firms in various industries. Mr. Webster is a member of the Institute of Supply Management and is accredited as a certified purchasing manager by the Institute for Supply Management. He is a Director of the Lions Camp Horizon Foundation and the Lahari Foundation. Mr. Webster holds a Bachelor of Engineering degree in chemical engineering from McMaster University in Hamilton, Ontario. Mr. Webster's experience in supply chain management, production operations management and business consulting in a variety of industries leads us to conclude that he would make significant contributions as a director.

Arthur R. Nemiroff has served as a director since February 2011. Prior to assuming his current responsibilities, from December 1990 to June 2010, Mr. Nemiroff was a partner of the accounting and auditing firm of BDO, USA LLP, where he served at various times as an audit and assurance partner, national director of the healthcare advisory services and concurring review partner on complex engagements. Since 2002, Mr. Nemiroff has served as a director and a member of the audit committee of City of Hope, a national medical center. Mr. Nemiroff holds a Bachelor of Science degree in Business Administration from the University of California at Los Angeles. Mr. Nemiroff's experience as a partner in a leading accounting firm, where he primarily focused on the healthcare industry, and his experience with the changing regulatory environment lead us to conclude that he would make significant contributions as a director.

John H. Bluher has served as a director since February 2011. Mr. Bluher is a specialist in investment management, fund formation and fund management, private equity and hedge fund creation. He has significant experience working with corporate structuring, corporate boards and committees, risk management, and public company corporate governance. His experience also includes negotiating transactions and purchases, and sales of assets and properties on a global basis. He has deep experience in creating and implementing corporate governance plans, working in the corporate board room, and as director of risk, developing internal audit programs and insurance programs for public companies. Since September 2010, Mr. Bluher has provided consulting services as a managing director of AFH Holding & Advisory LLC, a leading financial advisory and management consultant firm and affiliate of AFH. Mr. Bluher is responsible for managing transactions, business development, developing corporate governance standards and corporate structuring for companies. Since December 2009, Mr. Bluher assisted in raising capital, marketing and co-managed Coachman Energy Funds at Caddis Capital, LLC, a private equity portfolio focused on oil and gas investments. From February 2010 to August 2010, Mr. Bluher acted as investment banker and special financial advisor to the AARP Mutual Fund Board of Trustees in a platform divestiture. From December 2007 to May 2009, Mr. Bluher served as managing director and general counsel at Lehman Brothers, Inc.'s (NYSE:LEH) investment management division. Mr. Bluher also served as global chief legal and compliance officer and managing director of Neuberger Berman during this period. From August 2004 to June 2007, Mr. Bluher served as general counsel and director of risk and Janus Capital, Inc. (NYSE:JNS). From June 2002 to July 2004, Mr. Bluher served as executive vice president, general counsel and corporate secretary and director of risk management of Knight Trading Group (NASDAQ:NITE). From January 2001 to May 2002, Mr. Bluher served as senior vice president and global chief compliance officer for Prudential Securities, Inc. (NYSE:PRU). From October 1997 to January 2001, Mr. Bluher served as general counsel and chief compliance officer of Sun America, Inc. (NYSE:SAI) later (NYSE:AIG). From 1992 – 1997, Mr. Bluher served as senior vice president, regional and divisional Counsel at Prudential Securities, Inc. From 1987 to 1992, Mr. Bluher was senior counsel for the Division of Enforcement at the Securities and Exchange Commission. Mr. Bluher holds a Bachelor of Science and a J.D. degree from the University of Wyoming and holds FINRA Series 7, Series 24 and Series 14 licenses. He has served on the boards of ICI Mutual Insurance Company, the NASDAQ Chairman's Advisory Board, Cherry Hills Founders Group, Inc., and the University of Wyoming, College of Law Advisory Board. Mr. Bluher is a frequent speaker at financial services industry meetings and conferences. Mr. Bluher's extensive experience in corporate governance, risk management, legal matters, business development and investment banking leads us to conclude that he would make significant contributions as a director.

Our board of directors is divided into three classes with only one class of directors being elected in each year and each class serving a three-year term. Our Bylaws provide that the number of directors constituting our board of directors shall not be less than seven nor more than nine. Our Board of Directors has seven members. The term of office of the first class of directors, consisting of Maurice DeWald and Kim Giffoni will expire at our first annual meeting of stockholders following the completion of this offering. The term of office of the second class of directors, consisting of Elizabeth Charuvastra, Donald J. Webster and John H. Bluher, will expire at the second annual meeting following the completion of this offering. The term of office of the third class of directors, consisting of William E. Shell and Arthur R. Nemiroff, will expire at the third annual meeting following the completion of this offering.

Director Independence

Our Board of Directors has unanimously determined that Maurice J. DeWald, Donald J. Webster, Arthur R. Nemiroff and John H. Bluher, a majority of our Board of Directors, are "independent directors" as such term is defined by Nasdaq Marketplace Rule 5605(a)(2).

Board Committees

Our Board of Directors has formed an audit, compensation and nominating committee, each of which is described below. Each committee is composed of Messrs. Nemiroff, Bluher, DeWald and Webster.

Following the consummation of this offering, we intend to post the committee charters on its Web site at www.tmedpharma.com.

Audit Committee

All of the members of the Audit Committee are independent. Mr. Nemiroff serves as Chairperson of the Audit Committee. Our Board of Directors has determined that Mr. is an "audit committee financial expert" as defined in Item 407(d)(5)(ii) of Regulation S-K and the Nasdaq Capital Market listing standards.

The principal duties and responsibilities of our audit committee are to engage our independent auditors, oversee the quality and integrity of our financial reporting and the audit of the financial statements by the independent auditors. In fulfilling its obligations, our audit committee will review with the management and independent auditors the scope and result of the annual audit, the auditors' independence and our accounting policies.

The audit committee is required to report regularly to our Board of Directors to discuss any issues that arise with respect to the quality or integrity of our financial statements, compliance with legal or regulatory requirements, the performance and independence of the independent auditors, or the performance of the internal audit function.

Compensation Committee

All of the members of the Compensation Committee are independent. Mr. DeWald serves as Chairperson of the Compensation Committee. Among other functions, the compensation committee will oversee the compensation of our chief executive officer and other executive officers and senior management, including plans and programs relating to cash compensation, incentive compensation, equity-based awards and other benefits and perquisites and administers any such plans or programs as required by the terms thereof.

Nominating and Corporate Governance Committee

All of the members of the Nominating and Corporate Governance Committee are independent. Mr. Bluher serves as Chairperson of the Nominating and Corporate Governance Committee. The principal duties and responsibilities of our nominating committee will be to identify qualified individuals to become board members, recommend to the Board of Directors individuals to be designated as nominees for election as directors at the annual meetings of stockholders, and develop and recommend to the Board of Directors our corporate governance guidelines.

Code of Conduct and Ethics

We adopted a code of ethics that applies to our executive officers, directors and employees and, our subsidiaries. We intend to post our code of ethics on our Web site at *www.tdmedpharma.com* and to disclose any amendments to or any waivers from a provision of the code of ethics in a Current Report on Form 8-K.

Scientific Advisory Committee

Our Board of Directors has created a Scientific Advisory Committee. The members of the Scientific Advisory Committee are Dr. Shell, Dr. David Silver, who is Chairman, and Dr. Lawrence May. The following is a brief summary of the background of each member of our Scientific Advisory Committee:

David Silver, MD is a practicing board certified rheumatologist and internist with privileges at Cedars-Sinai Medical Center in Los Angeles, California and served as clinical chief of rheumatology at Cedars Sinai from October 2000 to September 2004. Since June 1993, Dr. Silver has taught at the University of California at Los Angeles School of Medicine in various capacities and in July 2004 was named an associate clinical professor. From December 1994 to October 2008, Dr. Silver served as the director of the Chronic Pain Rehabilitation Program at Cedars-Sinai Medical Center and, since January 1993, Dr. Silver has served as associate medical director of the Osteoporosis Medical Center, a non-profit research corporation in Beverly Hills, California. From May 2003 to April 2006, Dr. Silver served as member of the scientific advisory committee of the American College of Rheumatology and, from May 2000 to April 2002, he served as a member of the awards and grants committee. Dr. Silver has written a book entitled *Playing* Through *Arthritis: How to Conquer Pain and Enjoy Your Favorite Sports and Activities*. Dr. Silver has also been granted several research grants to study osteoarthritis, osteoporosis, fibromyalgia, rheumatoid arthritis and epicondylitis. Dr. Silver is the author of numerous publications in peer-reviewed journals and has regularly accepted speaking engagements on various topics in rheumatology. Dr. Silver also serves as peer reviewer for *Arthritis and Rheumatism*, *Clinical Rheumatology, Osteoporosis International*, *Journal of Osteoporosis* and *American Journal of Managed Care* . Dr. Silver received a Bachelor of Arts degree in medical sciences with a minor in economics from Boston University and a medical degree from the Boston University School of Medicine. He did his residency training in internal medical at Northwestern University School of Medicine and his fellowship in Rheumatology at Cedars Sinai Medical Center.

Lawrence May, MD is a practicing board certified internist in private practice. Dr. May is a pioneer in the development of the field of primary care and the integration of nutrition into conventional medical practice. Dr. May has taught at the University of California at Los Angeles School of Medicine since June 1977 and is a Clinical Professor of medicine. He has held various positions at UCLA, including chief of health services research at the Wadsworth Veteran's Administration Hospital and director of training in emergency medicine at the Veteran's administration facility, In September 1997, Dr. May co-founded and became an associate director of the UCLA Center for Health Enhancement Education and Research (CHEER), where he implemented a program of lifestyle change with a focus on the reduction of risk factors for cardiovascular disease. In addition to his clinical professorship, Dr. May has had a private practice. As part of his private practice, Dr. May was the director of education at the Encino Hospital located in Tarzana, California and served on the board of governors of the Encino/Tarzana Medical Center. He volunteered at the Free Clinic of Los Angeles from June 1997 to July 2005, where he supervised medical residents from Cedars-Sinai Hospital in Los Angeles, California caring for underprivileged patients. In May 1997, Dr. May became the executive vice president for medical and scientific affairs and chairman of the medical advisory board of Herbalife International. In June 2003, Dr. May co-founded PTL, a division of our company. Dr. May has authored a number of books, including as the founding author and editor of a widely-used text book entitled *Primary Care Medicine*. Dr. May has published a number of medical research articles, written for the popular press and lectured extensively. Dr. May has been included in the *Best Doctors of America* since 1996. Dr. May received a Bachelor of Arts degree in economics from Harvard University and a medical degree from Harvard Medical School.

Executive Compensation

The table below summarizes the compensation earned for services rendered to our predecessor and us in all capacities, for the fiscal years indicated, by its named executive officers.

Summary Compensation Table

Name and principal position	Year	Salary ($)	Bonus ($)	All other compensation ($)[1]	Total ($)
Amir F. Heshmatpour,	2010	—	—	—	—
former President, Secretary and Chief Financial Officer	2009	—	—	—	—
Elizabeth Charuvastra,	2010	450,000	—	5,325	455,325
Chairman and Vice President of Regulatory Affairs	2009	450,000	—	54,078	504,078
William E. Shell,	2010	450,000	—	5,325	455,325
Chief Executive Officer and Chief Scientific Officer	2009	450,000	—	53,578	503,578
Kim Giffoni,	2010	450,000	—	14,700	464,700
Executive Vice President of Foreign Sales and Investor Relations	2009	450,000	—	66,621	512,621
Steve B. Warnecke,	2010	—	—	—	—
Chief Financial Officer[2]	2009	—	—	—	—
Amir Blachman,	2010	98,308	5,000	7,141	110,449
Vice President of Strategy and Operations	2009	—	—	—	—

(1) Amounts shown are the value of the named executive officer's accrued benefit for the applicable year under our Targeted Medical Pharma, Inc. Profit Sharing Plan rather than an amount paid to the applicable named executive officer. Profit sharing plan contributions for the 2010 fiscal year have not yet been calculated and will be determined as part of the completion of the fiscal 2010 financial statements. The amount also includes employer-paid medical benefits. Although the employment agreements of Ms. Charuvastra, Dr. Shell and Mr. Giffoni entitle each of them to receive a monthly $1,000 car allowance, such amount has not been paid to any of them in fiscal 2009 or 2010.

(2) Mr. Warnecke joined us on January 31, 2011. Please see the section entitled "*Executive Compensation — Employment Agreements — Steve B. Warnecke*" below for a discussion of his employment agreement and the compensation that he is entitled to receive pursuant thereto.

Employment Agreements

TMP Insiders

We entered into employment agreements with each of Dr. Shell, Ms. Charuvastra and Mr. Giffoni, each dated June 1, 2010 and amended on January 31, 2011, pursuant to which they serve as our Chief Executive Officer, Chairman and Vice President of Regulatory Affairs and Executive Vice President of Foreign Sales and Investor Relations, respectively.

Pursuant to their employment agreements, each TMP Insider's term of employment will continue to December 31, 2014. The agreements provide for each TMP Insider to receive an initial annual base salary of $450,000, subject to cost of living increases not to exceed 5% annually. In addition, the employment agreements provide that the TMP Insiders' annual base salary shall be subject to increase in the event stated EBITDA thresholds are achieved. The TMP Insiders are also eligible for discretionary annual cash bonuses as determined by the Board of Directors.

Each TMP Insider is entitled to receive options to purchase 500,000 shares of our 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).

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.

Each employment agreement with the TMP Insiders contains an indemnification provision wherein we promise to defend, indemnify, and hold the employee harmless to the fullest extent permitted by law against any and all liabilities incurred by the employee in connection with the TMP Insider's good faith performance of such individual's employment.

Each employment agreement contains customary non-competition provisions that extend to twelve months following the termination of the TMP Insider's employment with us. The TMP Insiders have also agreed to customary terms regarding the protection and confidentiality of trade secrets, proprietary information and technology, designs and inventions.

In the event any TMP Insider is not vested with the responsibilities of acting in his or her stated capacity as an officer of our company, and the parties cannot mutually agree upon another suitable position, each TMP Insider will continue as an advisor and consultant to us for the remaining term of the agreement and shall be entitled to receive all compensation described above. In such event, each TMP Insider's service as an advisor and consultant to us will be required at such times as shall result in the least inconvenience to the TMP Insider with the understanding that the TMP Insider may have other business commitments during such consulting period. Nonetheless, during his or her employment as our advisor or consultant, the TMP Insider shall not directly or indirectly compete with us.

Steve B. Warnecke

On January 31, 2011, we entered into an employment agreement with Steve B. Warnecke pursuant to which Mr. Warnecke will serve as our Chief Financial Officer.

Pursuant to Mr. Warnecke's employment agreement, the term of his employment with us commenced on January 31, 2011 and shall continue to December 31, 2013. The agreement provides that Mr. Warnecke will receive an annual base salary of $200,000. For the term of the employment agreement, Mr. Warnecke shall be entitled to receive a quarterly cash bonus of $20,000 upon the completion of quarterly financial statements and the related public filings. In addition, Mr. Warnecke shall be entitled to receive an annual cash bonus of $5,000 upon the completion of our audited financial statements.

On January 31, 2011, we granted to Mr. Warnecke pursuant to his employment agreement ten-year options to purchase 500,000 shares of common stock at an exercise price of $2.55 per share. 166,667 options vested immediately and, beginning on January 31, 2012, 13,889 options will vest on the last day of each month. Any unvested options will vest upon a change of control or termination unless the termination was (a) by Mr. Warnecke, (b) for cause or (c) as a result of financial stress of our company. For purposes of Mr. Warnecke's employment agreement, "financial stress" is defined as our cash and available borrowings falling below $500,000. Mr. Warnecke shall also be entitled to participate in such benefit plans generally available to our employees and officers.

Mr. Warnecke is entitled to receive six months' base salary in the event his employment with us is terminated by death, disability or without cause by us. In the event Mr. Warnecke's employment is terminated for cause, he shall be entitled to receive only base salary and reimbursable expenses accrued and owing as of the date of termination. We would have "cause" to terminate the employment relationship upon

(i) Mr. Warnecke's conviction for the commission of a felony (or a plea of *nolo contendere* thereto); (ii) any act or omission involving theft or fraud with respect to us, our subsidiaries, customers or suppliers; (iii) reporting to work under the influence of alcohol or illegal drugs or the use of illegal drugs causing public disgrace to us; (iv) willful misconduct or gross negligence with respect to our company; and (v) failure by Mr. Warnecke substantially to perform his duties under the employment agreement (other than any such failure resulting from Mr. Warnecke's incapacity due to disability).

In the event Mr. Warnecke terminates the agreement for cause, he shall be entitled to receive only annual base salary and reimbursable expenses accrued to date. Mr. Warnecke will have "cause" to terminate the employment relationship in the event any of the following circumstances are not remedied within 30 days of our receipt of a notice of termination from Mr. Warnecke: (i) a material change in Mr. Warnecke's duties or a material limitation of his powers; (ii) a failure to elect Mr. Warnecke to the position of Chief Financial Officer or a reduction of his 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.

Mr. Warnecke's employment agreement contains an indemnification provision wherein we promise to defend, indemnify, and hold Mr. Warnecke harmless to the fullest extent permitted by law against any and all liabilities incurred by him in connection with Mr. Warnecke's good faith performance of such his employment with us.

Mr. Warnecke's employment agreement contains customary non-competition provisions that extend to twelve months following the termination of Mr. Warnecke's employment with us. Mr. Warnecke also agreed to customary terms regarding the protection and confidentiality of trade secrets, proprietary information and technology, designs and inventions.

In the event Mr. Warnecke is not vested with the responsibilities of acting as our Chief Financial Officer and the parties cannot mutually agree upon another suitable position, Mr. Warnecke will continue as an advisor and consultant to us for the remaining term of the agreement and shall be entitled to receive all compensation described above. In such event, Mr. Warnecke's service as an advisor and consultant to us will be required at such times as shall result in the least inconvenience to Mr. Warnecke with the understanding that Mr. Warnecke may have other business commitments during such consulting period. Nonetheless, during his employment as our advisor and consultant, Mr. Warnecke shall not directly or indirectly compete with us.

Amir Blachman

On February 15, 2010, we entered into a letter agreement with Amir Blachman pursuant to which Mr. Blachman would serve as Vice President of Operations. We entered into a promotion letter with Mr. Blachman on July 28, 2010 and a new employment agreement, which was effective as of February 8, 2011. Currently, Mr. Blachman serves as our Vice President of Strategy and Operations.

Pursuant to Mr. Blachman's employment agreement, the term of his employment with us commenced on January 31, 2011 and shall continue to December 31, 2013. The agreement provides that Mr. Blachman will receive an annual base salary of $140,000. Mr. Blachman is also eligible to receive performance bonuses at the discretion of our management.

Mr. Blachman is entitled to receive options to purchase 7,395 (adjusted for the Reorganization) shares of common stock following the 90th day of the effectiveness of his employment with us. Such options fully vested on the 91st day after the effective date of Mr. Blachman's employment, which was May 16, 2010. In addition, pursuant to Mr. Blachman's July 28, 2010 promotion letter, Mr. Blachman received additional options to purchase 73,945 shares (adjusted for the Reorganization) common stock, which options shall vest pro rata on a monthly basis over a two year period. Mr. Blachman's options to purchase stock shall be exercisable by Mr. Blachman at any time during the period of employment or within three years of termination of employment or, upon Mr. Blachman's death, by his estate, within six months from the date of death.

Mr. Blachman is entitled to receive six months' base salary in the event his employment with us is terminated by death, disability or without cause by us. In the event Mr. Blachman's employment is terminated for cause, he shall be entitled to receive only base salary and reimbursable expenses accrued and owing as of

the date of termination. We would have "cause" to terminate the employment relationship upon (i) Mr. Blachman's conviction for the commission of a felony (or a plea of nolo contendere thereto); (ii) any act or omission involving theft or fraud with respect to us, our subsidiaries, customers or suppliers; (iii) reporting to work under the influence of alcohol or illegal drugs or the use of illegal drugs causing public disgrace to us; (iv) willful misconduct or gross negligence with respect to our company; and (v) failure by Mr. Blachman substantially to perform his duties under the employment agreement (other than any such failure resulting from Mr. Blachman's incapacity due to disability).

In the event Mr. Blachman terminates the agreement for cause, he shall be entitled to receive only annual base salary and reimbursable expenses accrued to date. Mr. Blachman will have "cause" to terminate the employment relationship in the event any of the following circumstances are not remedied within 30 days of our receipt of a notice of termination from Mr. Blachman: (i) a material change in Mr. Blachman's duties or a material limitation of his powers; (ii) a failure to elect Mr. Blachman to the position of Chief Financial Officer or a reduction of his 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.

Mr. Blachman's employment agreement contains an indemnification provision wherein we promise to defend, indemnify, and hold Mr. Blachman harmless to the fullest extent permitted by law against any and all liabilities incurred by him in connection with Mr. Blachman's good faith performance of such his employment with us.

Mr. Blachman's employment agreement contains customary non-competition provisions that extend to twelve months following the termination of Mr. Blachman's employment with us. Mr. Blachman also agreed to customary terms regarding the protection and confidentiality of trade secrets, proprietary information and technology, designs and inventions.

In the event Mr. Blachman is not vested with the responsibilities of acting as our Vice President of Strategy and Operations and the parties cannot mutually agree upon another suitable position, Mr. Blachman will continue as an advisor and consultant to us for the remaining term of the agreement and shall be entitled to receive all compensation described above. In such event, Mr. Blachman's service as an advisor and consultant to us will be required at such times as shall result in the least inconvenience to Mr. Blachman with the understanding that Mr. Blachman may have other business commitments during such consulting period. Nonetheless, during his employment as our advisor and consultant, Mr. Blachman shall not directly or indirectly compete with us.

Amended and Restated Targeted Medical Pharma Profit Sharing Plan

The Targeted Medical Pharma Profit Sharing Plan (the "Profit Sharing Plan") is a defined contribution profit sharing plan covering certain eligible employees. The Profit Sharing Plan is subject to the provisions of the Employment Retirement Income Security Act of 1974, as amended, and certain federal income tax provisions. We may contribute such amounts to the Profit Sharing Plan as are authorized by the Board of Directors from time to time. We made contributions of $149,867.12 in 2009, and the total amount in trust with respect to the Profit Sharing Plan is $601,910.35. The contributions to the Profit Sharing Plan on behalf of named executive officers are included in the "All Other Compensation" column in the Summary Compensation Table above.

Targeted Medical Pharma, Inc., 2011 Stock Incentive Plan

The Targeted Medical Pharma, Inc. 2011 Stock Incentive Plan (the "Stock Incentive Plan") has been approved by our Board of Directors and by our stockholders. We have reserved 3,000,000 shares of common stock for awards to be granted through the plan. We intend to register the common stock included in the Stock Incentive Plan on a Form S-8 registration statement.

Potential Payments Upon Termination or Change in Control

As described above under the section entitled "*Executive Compensation — Employment Agreements*", we have entered into an employment agreement with Ms. Charuvastra, our Executive Chairman and Vice President of Regulatory Affairs, Dr. William E. Shell, our Chief Executive Officer and Chief Scientific Officer

and Kim Giffoni, our Executive Vice President of Foreign Sales and Investor Relations. These agreements provide for certain post-employment severance benefits in the event of employment termination under certain circumstances.

The following tables provide estimates of the potential severance and other post-termination benefits that each of Ms. Charuvastra, Dr. Shell and Mr. Giffoni would be entitled to receive assuming their respective employment was terminated as of December 31, 2010 for the reason set forth in each of the columns.

Benefit	Termination Due to Death	Termination Due to Disability	Termination by Registrant for Cause or by Named Executive Officer Other than for Cause	Termination by Registrant without Cause or by Named Executive Officer for Cause
Elizabeth Charuvastra				
Salary	$ 675,000	$ 675,000	$ 675,000	$ 1,800,000(1)
Bonus	—	—	—	—
Grant of Restricted Stock	—	—	—	$ 1,250,000(2)
Value of health benefits provided after termination(3)	—	—	—	$ 57,600
TOTALS	**$ 675,000**	**$ 675,000**	**$ 675,000**	**$ 3,107,600**

(1) Represents the greater of salary at the milestone level achieved as of December 31, 2010 for the longer of the remaining term of the employment agreement or 30 months, which, in this case is the remaining term of the employment agreement of 48 months.

(2) Based upon an assumed per share value of $2.50.

(3) The value of such benefits are determined based on the estimated cost of providing health benefits to the named executive officer and her eligible dependents for the longer of the remaining term of the employment agreement or 30 months, which, in this case is 48 months after the executive officer's termination of employment.

Benefit	Termination Due to Death	Termination Due to Disability	Termination by Registrant for Cause or by Named Executive Officer Other than for Cause	Termination by Registrant without Cause or by Named Executive Officer for Cause
William E. Shell, M.D.				
Salary	$ 675,000	$ 675,000	$ 675,000	$ 1,800,000(1)
Bonus	—	—	—	—
Grant of Restricted Stock	—	—	—	$ 1,250,000(2)
Value of health benefits provided after termination(3)	—	—	—	$ 57,600
TOTALS	**$ 675,000**	**$ 675,000**	**$ 675,000**	**$ 3,107,600**

(1) Represents the greater of salary at the milestone level achieved as of December 31, 2010 for the longer of the remaining term of the employment agreement or 30 months, which, in this case is the remaining term of the employment agreement of 48 months.

(2) Based upon an assumed per share value of $2.50.

(3) The value of such benefits are determined based on the estimated cost of providing health benefits to the named executive officer and his eligible dependents for the longer of the remaining term of the employment agreement or 30 months, which, in this case is 48 months after the executive officer's termination of employment.

Benefit	Termination Due to Death	Termination Due to Disability	Termination by Registrant for Cause or by Named Executive Officer Other than for Cause	Termination by Registrant without Cause or by Named Executive Officer for Cause
Kim Giffoni				
Salary	$ 675,000	$ 675,000	$ 675,000	$ 1,800,000[1]
Bonus	—	—	—	—
Grant of Restricted Stock	—	—	—	$ 1,250,000[2]
Value of health benefits provided after termination[3]	—	—	—	$ 57,600
TOTALS	**$ 675,000**	**$ 675,000**	**$ 675,000**	**$ 3,107,600**

(1) Represents the greater of salary at the milestone level achieved as of December 31, 2010 for the longer of the remaining term of the employment agreement or 30 months, which, in this case is the remaining term of the employment agreement of 48 months.

(2) Based upon an assumed per share value of $2.50.

(3) The value of such benefits are determined based on the estimated cost of providing health benefits to the named executive officer and his eligible dependents for the longer of the remaining term of the employment agreement or 30 months, which, in this case is 48 months after the executive officer's termination of employment.

Benefit	Termination Due to Death	Termination Due to Disability	Termination by Registrant for Cause or by Named Executive Officer Other than for Cause	Termination by Registrant without Cause
Steve B. Warnecke				
Salary	$ 100,000	$ 100,000	$ 0	$ 100,000
Bonus	—	—	—	—
TOTALS	**$ 100,000**	**$ 100,000**	**$ 0**	**$ 100,000**

Benefit	Termination Due to Death	Termination Due to Disability	Termination by Registrant for Cause or by Named Executive Officer Other than for Cause	Termination by Registrant without Cause
Amir Blachman				
Salary	$ 70,000	$ 70,000	$ 0	$ 70,000
Bonus	—	—	—	—
TOTALS	**$ 70,000**	$ 70,000	$ 0	$ 70,000

Director Compensation

In fiscal 2010, we did not pay any cash fees to our directors, nor did we pay directors' expenses in attending board meetings. Our Board of Directors has determined not to pay any cash fees to our non-independent directors, nor will we pay their expenses for attending board meetings. In fiscal 2011, we expect that independent directors shall be paid an annual fee of $30,000, which will be paid quarterly, $1,500 for each board meeting they attend, of which we expect there to be eight, $3,000 for acting as chairperson of a board committee, $2,000 for each board committee meeting attended, of which we expect there to twelve. In addition, each independent director shall be granted $50,000 of stock options, 25% of which will vest at the end of each quarter in 2011. The options will have an exercise price of $2.55 per share. Independent directors shall also be granted 2,000 restricted shares of common stock. The options and the shares of common stock

share be granted pursuant to the Stock Incentive Plan. Total compensation for an independent director that acts as chairperson of a board committee and attends each board and board committee meeting may be up to $106,000.

Limitation of Liability and Indemnification of Directors and Officers

Our amended and restated certificate of incorporation limits the liability of our directors and officers for any liability arising from an action to which such persons were party by reason of the fact that they were serving our company or another enterprise at our request to the fullest extent permitted by Section 145 of the DGCL.

The first paragraph of Article Tenth of the Company's amended and restated certificate of incorporation provides:

"To the fullest extent permitted by applicable law, the Corporation is authorized to provide indemnification of (and advancement of expenses to) directors, officers and agent of the Corporation (and any other persons to which General Corporation Law permits the Corporation to provide indemnification) through Bylaw provisions, agreements with such agents or other persons, vote of stockholders or disinterested directors or otherwise, in excess of the indemnification and advancement otherwise permitted by Section 145 of the General Corporation Law"

Our amended and restated bylaws further provide that any indemnification shall be made by us in connection with a proceeding (or part thereof) initiated by a director or officer with a right to indemnification only if (i) such proceeding (or part thereof) was authorized or ratified by our Board of Directors, (ii) such indemnification is expressly required to be made by law, and (iii) we provide the indemnification, in our sole discretion, pursuant to the powers vested in us under applicable law.

Pursuant to our amended and restated bylaws, our directors and officers shall, to the fullest extent not prohibited by law, also have the right to receive an advancement of expenses incurred in defending any proceeding in advance of its final disposition. To the extent required under the DGCL, an advancement of expenses incurred by a director or officer in his or her capacity as a director or officer (and not in any other capacity in which service was or is rendered by such individual, including, without limitation, service to an employee benefit plan) shall be made only upon delivery to us of an undertaking, by or on behalf of such director or officer, to repay all amounts so advanced if it shall ultimately be determined by final judicial decision from which there is no further right to appeal that such director or officer is not entitled to be indemnified for such expenses.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers or persons controlling the Company pursuant to the foregoing provisions, the Company has been informed that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is therefore unenforceable.

PRINCIPAL STOCKHOLDERS

The following table sets forth information known to us regarding the beneficial ownership of our common stock as of February 14, 2011 by:

- each person known by us to be the beneficial owner of more than 5% of the outstanding shares of our common stock based solely on Schedule 13D and 13G filings with the Securities and Exchange Commission; and
- each of our named executive officers and directors.

Unless otherwise indicated, we believe that all persons named in the table below have sole voting and investment power with respect to all shares of common stock beneficially owned by them.

	Common Stock		
	Before the Offering		As Adjusted for the Offering
Name of Beneficial Owner[1]	Common Stock Beneficially Owned	Percent of Class	Percent of Class
William E. Shell, M.D.[2][3]	9,419,051	42.94%	
Elizabeth Charuvastra[2][3]	9,419,051	42.94%	
Kim Giffoni[3][4]	3,345,977	15.26%	
Steve B. Warnecke[5]	316,667 [5]	1.43%	
Amir Blachman	25,880 [6]	*	
Maurice J. DeWald	0	*	
Donald J. Webster[7]	0	*	
Arthur R. Nemiroff	0	*	
John H. Bluher	102,000	*	
AFH Holding and Advisory, LLC[8]	1,304,850	5.95%	
Amir F. Heshmatpour[9]	1,604,850	7.32%	
Elizabeth Charuvastra and William Shell Family Trust dated July 27, 2006 and Amended September 29, 2006[2][3]	9,419,051	42.94%	
Giffoni Family Trust Dated September 26 2008[3][4]	3,292,736	15.01%	
Olena B. Giffoni[3][4]	3,292,736	15.01%	
Shlomo Rechnitz[10]	1,182,272	5.40%	
Directors and officers as a group (9 persons)	13,209,575	59.70%	

* Less than 1% of outstanding shares of common stock.

(1) Unless otherwise indicated, the business address of each of the individuals is c/o Targeted Medical Pharma, Inc., 2980 Beverly Glen Circle, Suite 301, Los Angeles, California 90077.

(2) The address of the Elizabeth Charuvastra and William Shell Family Trust dated July 27, 2006 and Amended September 29, 2006 ("EC and WS Family Trust") is 3048 Nicada Drive, Los Angeles, California 90077. Includes 216,408 shares of common stock beneficially owned by family and friends of Dr. Shell and Ms. Charuvastia over which the EC and WS Family Trust holds voting control. Ms. Charuvastra and Dr. Shell are the Co-Trustees of the EC and WS Family Trust and may both be considered to have beneficial ownership of the EC and WS Family Trust's interests in the Company. Ms. Charuvastra and Dr. Shell may be deemed to share voting and dispositive control with respect to the securities owned by the EC and WS Family Trust. Each of Ms. Charuvastra and Dr. Shell disclaim beneficial ownership of any shares in which each does not have a pecuniary interest.

(3) Pursuant to the Merger Agreement, the TMP Insiders agreed that up to 1,906,768 shares of the Company's common stock (the "Make Good Shares") they collectively own would be subject to forfeiture in the event we fail to achieve a certain EBITDA target. Up to 1,271,242 shares held by the EC and WS Family Trust and up to 635,526 shares held by the Giffoni Family Trust (as defined below) would be subject to cancellation and forfeiture to the extent we fail to achieve the Make Good Target. Does not give effect to the forfeiture and cancellation of the Make Good Shares by the TMP Insiders.

(4) Includes 3,292,736 shares held by the Giffoni Family Trust Dated September 26, 2008 ("Giffoni Family Trust") The address of the Giffoni Family Trust is 245 Paradise Cove Road, Malibu, California 90265. Mr. Giffoni and Ms. Olena B. Giffoni are the Co-Trustees of the Giffoni Family Trust and may both be considered to have beneficial ownership of the Giffoni Family Trust's interests in the Company. Mr. Giffoni and Ms. Giffoni may be deemed to share voting and dispositive control with respect to the securities owned by the Giffoni Family Trust. Each of Mr. Giffoni and Ms. Giffoni disclaim beneficial ownership of any shares in which each does not have a pecuniary interest.

(5) Includes options to purchase 166,667 shares of common stock and does not reflect options to purchase 333,333 shares of common stock, which are not exercisable within 60 days.

(6) Includes options to purchase 25,880 shares of common stock and does not reflect options to purchase 55,460 shares of common stock, which are not exercisable within 60 days.

(7) Does not include options to purchase 7,395 shares of common stock, which are not exercisable within 60 days.

(8) The business address of AFH Holding and Advisory, LLC ("AFH Advisory") is 9595 Wilshire Boulevard, Suite 700, Beverly Hills, California 90212. Mr. Amir F. Heshmatpour is the managing partner of AFH Advisory and may be considered to have beneficial ownership of AFH Advisory's interests in the Company. Mr. Heshmatpour may be deemed to have voting and dispositive control with respect to the securities owned by AFH Advisory. Mr. Heshmatpour disclaims beneficial ownership of any shares in which he does not have a pecuniary interest.

(9) The business address of Amir Heshmatpour is c/o AFH Holding and Advisory, LLC, 9595 Wilshire Boulevard, Suite 700, Beverly Hills, California 90212. Includes 1,304,850 shares held by AFH Advisory, of which Mr. Heshmatpour is the managing partner. Mr. Heshmatpour may be deemed to have voting and dispositive control with respect to the securities owned by AFH Advisory. Also includes 300,000 shares held by Griffin Ventures Ltd., 9595 Wilshire Boulevard, Suite 700, Beverly Hills, California 90212, of which Mr. Heshmatpour is the President, Secretary, Treasurer and director. Mr. Heshmatpour may be deemed to have voting and dispositive control with respect to the securities owned by Griffin Ventures. Mr. Heshmatpour disclaims beneficial ownership of any shares in which he does not have a pecuniary interest.

(10) The business address of Mr. Rechnitz is 5967 West 3rd Street, Los Angeles, California 90036.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

The following is a description of transactions that were entered into with our executive officers, directors or 5% stockholders during the past three years. We believe that all of the transactions described below were made on terms no less favorable to us than could have been obtained from unaffiliated third parties. All future related party transactions will be approved by our audit committee or a majority of our independent directors who do not have an interest in the transaction and who will have access, at our expense, to our independent legal counsel. Information about employment agreements, including grants of options to purchase our common stock, entered into with our executive officers is included in the section of this prospectus titled "Executive Compensation".

Mr. Heshmatpour, our former President and a director and our original stockholder, is deemed our promoter as this term is defined under the federal securities laws.

Pursuant to the Merger Agreement, on January 31, 2011, TMP Merger Sub merged with and into TMP with TMP continuing as the surviving entity. Immediately after the TMP Merger, AFH merged with and into AFH Merger Sub with AFH continuing as the surviving entity. As a result of the AFH Merger, our name was changed from "AFH Acquisition III, Inc." to "Targeted Medical Pharma, Inc.". As a result of the Reorganization, the Subsidiary will be our 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 Old 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 was exchanged for one share of our common stock and one option to purchase one share of our common stock. As a result of the Reorganization, holders of Old TMP common stock and Old TMP options received 18,308,576 shares of our common stock and options to purchase 566,424 shares of our common stock, or 83.89% of our issued and outstanding common stock on a fully diluted basis.

In connection with the consummation of the Reorganization, AFH Advisory agreed to cancel 2,275,000 shares of our common stock. AFH Advisory received no consideration for such cancellation.

In connection with the Reorganization, William E. Shell, MD, our Chief Executive Officer, Elizabeth Charuvastra, our Chairman and Vice President of Regulatory Affairs, and Kim Giffoni, our Executive Vice President of Foreign Sales and Investor Relations, agreed to advance to the Company an aggregate of $465,000 to pay a portion of the Company's expenses related to the Reorganization. The loan bears interest at a rate of 6% and is payable upon the earlier of December 1, 2012 or the Company's receipt of funds from a public offering of its securities.

DESCRIPTION OF SECURITIES

Upon the closing of this offering, our authorized capital stock will consist of shares of common stock and no shares of preferred stock. As of the date of this prospectus, we have 21,933,576 shares of common stock outstanding held of record by 348 stockholders and no outstanding shares of preferred stock. As of the date of this prospectus, there are outstanding options to purchase 1,066,424 shares of our common stock.

Common Stock

We issued 18,308,576 shares of common stock in connection with the consummation of the Reorganization. In addition, we may issue up to 1,066,424 shares of common stock upon the exercise of outstanding options.

Holders of common stock have exclusive voting rights for the election of our directors and all other matters requiring stockholder action, except with respect to amendments to the our amended and restated certificate of incorporation that alter or change the powers, preferences, rights or other terms of any outstanding preferred stock if the holders of such affected series of preferred stock are entitled to vote on such an amendment. Holders of common stock are entitled to one vote per share on matters to be voted on by stockholders. Our stockholders may act by written consent.

Our stockholders have no conversion, preemptive or other subscription rights and there are no sinking fund or redemption provisions applicable to the common stock. Our stockholders are entitled to receive such dividends, if any, as may be declared from time to time by the Company board of directors in its discretion out of funds legally available therefor.

Our Board of Directors is divided into three classes, each of which generally serve for a term of three years with only one class of directors being elected in each year. There is no cumulative voting with respect to the election of directors, with the result that the holders of more than 50% of the shares voted for the election of directors can elect all of the directors.

Preferred Stock

Our amended and restated certificate of incorporation authorizes the issuance of 20,000,000 shares of blank check preferred stock with such designation, rights and preferences as may be determined from time to time by its board of directors. No shares of preferred stock are being issued or registered in connection with the Reorganization.

Accordingly, our Board of Directors is authorized, subject to any limitations prescribed by law, without stockholder approval, to issue from time to time up to an aggregate of 20,000,000 shares of preferred stock, in one or more series, each such series to have such voting powers, full or limited, or no voting powers, and such designations, preferences, privileges and relative, participating, optional or other special rights and qualifications, limitations or restrictions as shall be determined by our Board of Directors. The rights for the holders of common stock will be subject to, and may be adversely affected by, the rights of holders of any preferred stock that may be issued in the future. Issuance of preferred stock, while providing desirable flexibility in connection with possible acquisitions and other corporate purposes, could have the effect of making it more difficult for a third party to acquire, or of discouraging a third party from attempting to acquire, a majority of our outstanding voting stock.

Options Outstanding

As of the date hereof, we have issued options to purchase an aggregate of 1,066,424 shares of our common stock at prices ranging from $.77 to $3.38 per share. 500,000 of such options are issued pursuant to our Targeted Medical Pharma, Inc. 2011 Stock Incentive Plan. Of these outstanding options, 588,735 are issued to our current directors and officers. For additional details regarding options outstanding, please refer to the *Stockholders' Equity* note to the Financial Statements.

Warrants

Representative's Warrants

We have agreed to grant to Sunrise Securities Corp., the representative of the underwriters, warrants to purchase a number of shares of common stock equal to 3% of the total number of shares of common stock sold in this offering at a price equal to the price of the shares of common stock in this offering. The common stock issuable upon exercise of these warrants are identical to those offered by this prospectus. For a more complete description of these warrants, see the section entitled " *Underwriting — Underwriter Warrants*."

Registration Rights

In connection with the consummation of the Reorganization, we entered into a Registration Rights Agreement, dated January 31, 2011, for the benefit of the Existing AFH stockholders and the Former TMP Stockholders other than the TMP Insiders. Pursuant to the Registration Rights Agreement, the Existing AFH Stockholders and the Former TMP Stockholders have certain "piggyback" registration rights on registration statements filed after the Reorganization is consummated other than registration statements (i) filed in connection with any employee stock option or other benefit plan, (ii) for an exchange offer or offering of securities solely to our existing shareholders, (iii) for an offering of debt that is convertible into our equity securities; (iv) for a dividend reinvestment plan or (v) for an offering of our equity securities underwritten by Sunrise Securities Corp. We will bear the expenses incurred in connection with the filing of any such registration statements.

In connection with a private sale of our common stock by the TMP Insiders to certain investors named in the purchase documents related to such sales, we granted certain piggyback registration rights to the investors in such private sales on registration statement other than registration statements (i) filed in connection with any employee stock option or other benefit plan, (ii) for an exchange offer or offering of securities solely to our existing shareholders, (iii) for an offering of debt that is convertible into our equity securities; (iv) for a dividend reinvestment plan or (v) for an offering of our equity securities underwritten by Sunrise Securities Corp. We will bear the expenses incurred in connection with the filing of any such registration statements.

Anti-takeover Provisions

The provisions of Delaware law, our amended and restated certificate of incorporation and our restated bylaws could discourage or make it more difficult to accomplish a proxy contest or other change in our management or the acquisition of control by a holder of a substantial amount of our voting stock. It is possible that these provisions could make it more difficult to accomplish, or could deter, transactions that stockholders may otherwise consider to be in their best interests or in our best interest.

These provisions are intended to enhance the likelihood of continuity and stability in the composition of our board of directors and in the policies formulated by the board of directors and to discourage certain types of transactions that may involve an actual or threatened change of our control. These provisions are designed to reduce our vulnerability to an unsolicited acquisition proposal and to discourage certain tactics that may be used in proxy fights. Such provisions also may have the effect of preventing changes in our management.

Delaware Statutory Business Combinations Provision. We are subject to the anti-takeover provisions of Section 203 of the Delaware General Corporations Law. In general, Section 203 prohibits a publicly-held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years after the date of the transaction in which the person became an interested stockholder, unless:

- prior to the date, the board of directors of the corporation approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder;
- upon consummation of the transaction that resulted in the stockholder's becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding those shares owned by persons who are directors and also officers, and employee stock plans in which employee participants do not have the right to determine confidentially whether shares held under the plan will be tendered in a tender or exchange offer; or

- on or subsequent to the date, the business combination is approved by the board of directors and authorized at an annual or special meeting of stockholders, and not by written consent, by the affirmative vote of at least two-thirds of the outstanding voting stock that is not owned by the interested stockholder.

Section 203 defines "business combination" to include:

- any merger or consolidation involving the corporation and the interested stockholder;
- any sale, transfer, pledge or other disposition involving the interested stockholder of 10% or more of the assets of the corporation;
- in general, any transaction that results in the issuance or transfer by the corporation of any stock of the corporation to the interested stockholder; or
- the receipt by the interested stockholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits provided by or through the corporation.

In general, Section 203 defines an "interested stockholder" as any entity or person beneficially owning 15% or more of the outstanding voting stock of the corporation and any entity or person affiliated with or controlling or controlled by the entity or person.

Transfer Agent and Registrar

The transfer agent for our common stock is Corporate Stock Transfer, Inc., 3200 Cherry Creek Drive South, Suite 430, Denver, Colorado 80209.

Listing

We intend to apply to list our common stock on the Nasdaq Capital Market under the symbol " ".

Shares Eligible for Future Sale

Prior to this offering, there was no public market for our securities. When a public market develops, future sales of substantial amounts of our securities in the public market could adversely affect market prices. Upon consummation of this offering, we will have shares of common stock issued and outstanding.

Approximate Number of Shares Eligible for Future Sale	Date
	Upon consummation of this offering, freely tradable shares of common stock sold in this offering.
	Upon consummation of this offering, freely tradable shares subject to the lock-up agreements described above.

Rule 144

Restricted securities may be sold in the public market only if registered or if they qualify for an exemption from registration under Rule 144 promulgated under the Securities Act. In general, under Rule 144 as currently in effect, a person, or persons whose shares are aggregated, who has beneficially owned shares of our common stock for at least six months, including the holding period of any prior owner, except if the prior owner was one of our affiliates, would be entitled to sell their securities. within any three-month period a number of shares that does not exceed the greater of:

- 1% of the number of shares of our common stock then outstanding (which will equal approximately shares immediately after this offering); or
- the average weekly trading volume of our common stock during the four calendar weeks preceding the filing of a notice on Form 144 with respect to the sale, assuming that our common stock is trading at such time.

Sales by a person deemed to be our affiliate under Rule 144 are also subject to manner of sale provisions and notice requirements and to the availability of current public information about us.

UNDERWRITING

Subject to the terms and conditions of the underwriting agreement, the underwriters named below, through their representative, Sunrise Securities Corp., have severally agreed to purchase from us on a firm commitment basis the following respective number of shares of common stock at a public offering price less the underwriting discounts and commissions set forth on the cover page of this prospectus:

Underwriter	Number of Shares
Sunrise Securities Corp.	
Total	

The underwriting agreement provides that the obligation of the underwriters to purchase all of the shares of common stock being offered to the public is subject to specific conditions, including the absence of any material adverse change in our business or in the financial markets and the receipt of certain legal opinions, certificates and letters from us, our counsel and the independent auditors. Subject to the terms of the underwriting agreement, the underwriters will purchase all of the shares of common stock being offered to the public if any of these shares of common stock are purchased.

Commissions and Discounts

The underwriting discounts and commissions are 7% of the initial public offering price. We have agreed to pay the underwriters the discounts and commissions set forth below.

The representative has advised us that the underwriters propose to offer the shares of common stock directly to the public at the public offering price set forth on the cover of this prospectus. In addition, the representative may offer some of the shares of common stock to other securities dealers at such price less a concession of $ per share. The underwriters may also allow, and such dealers may reallow, a concession not in excess of $ per share to other dealers. After the common stock is released for sale to the public, the representative may change the offering price and other selling terms at various times.

The following table summarizes the underwriting discounts and commissions we will pay to the underwriters. The underwriting discounts and commissions are equal to the public offering price per share less the amount per share the underwriters pay us for the shares.

	Per Share	Total
Public offering price		
Underwriting discount[(1)]		
Proceeds, before expenses, to us		

We estimate that the total expenses of the offering, including registration, filing and listing fees, printing fees and legal and accounting expenses, but excluding underwriting discounts and commissions, will be approximately $, all of which are payable by us.

Representative's Warrants

We have also agreed to issue to the underwriters warrants to purchase a number of our shares of common stock equal to an aggregate of 3% of the shares of common stock sold in this offering. The warrants will have an exercise price equal to the offering price of the shares sold in this offering and may be exercised on a cashless basis. The warrants are exercisable commencing after the effective date of the registration statement related to this offering, and will be exercisable for five years thereafter. The warrants are not redeemable by us. The warrants and the shares of common stock underlying the warrants have been deemed compensation by FINRA and are therefore subject to a 180-day lock-up pursuant to Rule 5110(g)(1) of FINRA. The underwriters (or permitted assignees under the Rule) may not sell, transfer, assign, pledge, or hypothecate the warrants or the securities underlying the warrants, nor will they engage in any hedging, short sale, derivative, put, or call transaction that would result in the effective economic disposition of the warrants or the underlying shares of common stock for a period of 180 days from the date of this prospectus. The warrants will provide for adjustment in the number and price of such warrants (and the shares of common stock) in the event of recapitalization, merger or other structural transaction to prevent mechanical dilution.

Lock-Up Agreements

We and each of our officers, directors, and existing stockholders have agreed, subject to certain exceptions, not to offer, issue, sell, contract to sell, encumber, grant any option for the sale of or otherwise dispose of any shares of our common stock or other securities convertible into or exercisable or exchangeable for shares of our common stock for a period of 12 months after the effective date of the registration statement of which this prospectus is a part without the prior written consent of Sunrise Securities Corp.

Pricing of this Offering

Prior to this offering there has been no public market for any of our securities. The public offering price of the shares of common stock and the terms of the warrants were negotiated between us and Sunrise Securities Corp. Factors considered in determining the prices and terms of the shares include:

- the history and prospects of companies in our industry;
- prior offerings of those companies;
- our prospects for developing and commercializing our products; our capital structure;
- an assessment of our management and their experience; general conditions of the securities markets at the time of the offering; and
- other factors as were deemed relevant.

However, although these factors were considered, the determination of our offering price is more arbitrary than the pricing of securities for a company with an active trading market in its securities since the underwriters are unable to compare our financial results and prospects with those of public companies operating in the same industry.

In connection with this offering, the underwriters may distribute prospectuses electronically. No forms of prospectus other than printed prospectuses and electronically distributed prospectuses that are printable in Adobe® PDF format will be used in connection with this offering.

The underwriters have informed us that they do not expect to confirm sales of shares of common stock offered by this prospectus to accounts over which they exercise discretionary authority without obtaining the specific approval of the account holder.

Price Stabilization, Short Positions and Penalty Bids

The underwriters may engage in stabilizing transactions, syndicate covering transactions, and penalty bids or purchasers for the purpose of pegging, fixing or maintaining the price of the common stock, in accordance with Regulation M under the Exchange Act:

- Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum;
- Syndicate covering transactions involve purchases of the common stock in the open market after the distribution has been completed in order to cover syndicate short positions. A naked short position is more likely to be created if the underwriter is concerned that there could be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering.
- Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when the common stock originally sold by the syndicate member is purchased in a stabilizing or syndicate covering transaction to cover syndicate short positions.

These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of the common stock. As a result, the price of the common stock may be higher than the price that might otherwise exist in the open market. These transactions may be effected in the over-the-counter market or otherwise and, if commenced, may be discontinued at any time.

Neither we nor any of the underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the common stock. In addition, neither we nor any of the underwriters make representation that the underwriters will engage in these stabilizing transactions or that any transaction, once commenced, will not be discontinued without notice.

Other Terms

For a period of two years from the consummation of this offering or for a period of one year from the termination of the engagement agreement between Sunrise Securities Corp. and the Company, Sunrise shall be entitled to receive a 7% success fee and warrants to purchase 3% of the securities issued in such offering.

Indemnification

We have agreed to indemnify the underwriters against liabilities relating to the offering arising under the Securities Act, liabilities arising from breaches of some or all of the representations and warranties contained in the underwriting agreement, and to contribute to payments that the underwriters may be required to make for these liabilities.

Electronic Distribution

A prospectus in electronic format may be made available on a Web site maintained by the representative of the underwriters and may also be made available on a Web site maintained by other underwriters. The underwriters may agree to allocate a number of shares to underwriters for sale to their online brokerage account holders. Internet distributions will be allocated by the representative of the underwriters to underwriters that may make Internet distributions on the same basis as other allocations. In connection with the offering, the underwriters or syndicate members may distribute prospectuses electronically. No forms of electronic prospectus other than prospectuses that are printable as Adobe® PDF will be used in connection with this offering.

The underwriters have informed us that they do not expect to confirm sales of shares offered by this prospectus to accounts over which they exercise discretionary authority

Other than the prospectus in electronic format, the information on any underwriter's Web site and any information contained in any other Web site maintained by an underwriter is not part of the prospectus or the registration statement of which this prospectus forms a part, has not been approved and/or endorsed by us or any underwriter in its capacity as underwriter and should not be relied upon by investors.

Foreign Sales

We have not taken any action to permit a public offering of our common stock outside of the United States or to permit the possession or distribution of this prospectus outside the United States. Persons outside the United States who come into possession of this prospectus must inform themselves about and observe any restrictions relating to this offering of our common stock and the distribution of the prospectus outside the United States.

LEGAL MATTERS

Ellenoff Grossman & Schole LLP, 150 East 42nd Street, New York, New York 10017, will pass upon the validity of the securities offered in this prospectus. Richardson & Patel LLP, New York, New York, has acted as counsel to the underwriters in connection with this offering.

EXPERTS

The consolidated financial statements of Targeted Medical Pharma, Inc. as of December 31, 2009 and 2008 and for the nine months ended September 30, 2010 have been included herein in reliance upon the report of EFP Rotenberg LLP, an independent member of the BDO Seidman alliance, an independent registered public accounting firm, appearing elsewhere herein, and upon the authority of said firm as experts in accounting and auditing.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

We have filed with the Securities and Exchange Commission a registration statement on Form S-1 under the Securities Act with respect to the shares of common stock offered by this prospectus. This prospectus, which is part of the registration statement filed with the SEC, does not contain all of the information set forth in the registration statement or the exhibits filed therewith. For further information with respect to us and the shares of common stock offered by this prospectus, please see the registration statement and exhibits filed with the registration statement.

You may also read and copy any materials we have filed with the SEC at the SEC's public reference room, located at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. In addition, our SEC filings, including reports, proxy statements and other information regarding issuers that file electronically with the SEC, are also available to the public at no cost from the SEC's website at *http://www.sec.gov*. You also may request a copy of the registration statement and these filings by writing us at 18 East 16th Street, 7th Floor, New York, New York 10003 or calling us at (646) 448-8210.

We are subject to the information and periodic reporting requirements of the Exchange Act and, accordingly we file annual reports containing financial statements audited by an independent public accounting firm, quarterly reports containing unaudited financial data, current reports, proxy statements and other information with the SEC. You will be able to inspect and copy such periodic reports, proxy statements and other information at the SEC's public reference room and the SEC's Web site referred to above.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page
Report of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets at December 31, 2009 and 2008	F-3
Consolidated Statements of Income For the Years Ended December 31, 2009 and 2008	F-4
Consolidated Statement of Changes in Stockholders' Equity for the Years Ended December 31, 2009 and 2008	F-5
Consolidated Statements of Cash Flows for the Years Ended December 31, 2009 and 2008	F-6
Notes to the Consolidated Financial Statements as of December 31, 2009	F-7
Consolidated Balance Sheets as of December 31, 2009 and September 30, 2010 (unaudited)	F-19
Consolidated Statements of Income for the Nine Months Ended September 30, 2010 and 2009 (unaudited)	F-20
Consolidated Statements of Stockholders' Equity for the Nine Months Ended September 30, 2010 (unaudited)	F-21
Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2010 and 2009 (unaudited)	F-22
Notes to the Condensed Consolidated Financial Statements as of September 30, 2010 and 2009 (unaudited)	F-23

Certified Public Accountants |m. 280 Kenneth Drive, Suite 100 |m. Rochester, New York 14623 |m. 585.427.8900 |m. **EFPRotenberg.com**

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of Targeted Medical Pharma, Inc.

We have audited the accompanying consolidated balance sheets of Targeted Medical Pharma, Inc. as of December 31, 2009 and 2008, and the related consolidated statements of income, stockholders' equity and cash flows for the years then ended. Targeted Medical Pharma, Inc.'s management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Targeted Medical Pharma, Inc. as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

EFP Rotenberg, LLP

EFP Rotenberg, LLP
Rochester, New York
January 31, 2011

TARGETED MEDICAL PHARMA, INC.

CONSOLIDATED BALANCE SHEETS
December 31, 2009 and 2008

	2009	2008
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 321,216	$ 812,681
Investments	541,280	—
Inventory	352,886	527,918
Accounts Receivable – Net of Allowance for Doubtful Accounts	11,787,175	8,112,903
Loans Receivable – Employees	123,437	25,416
Prepaid Expenses – Short Term	309,563	113,897
Prepaid Taxes	—	357,603
Deferred Tax Asset	207,500	207,500
Total Current Assets	13,643,057	10,157,918
Property and Equipment – Net of Accumulated Depreciation	856,699	202,635
Intangible Assets – Net of Accumulated Amortization	1,501,981	136,773
Prepaid Expenses – Long Term	86,314	37,965
Other Assets	26,000	1,000
Total Assets	$ 16,114,051	$ 10,536,291
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Accounts Payable and Accrued Expenses	$ 410,047	$ 658,720
Taxes Payable	76,199	—
Total Current Liabilities	486,246	658,720
Deferred Income Taxes	4,675,600	2,933,100
Total Liabilities	5,161,846	3,591,820
Stockholders' equity:		
Shareholders' Equity		
Common stock, $0.0001 par value; 60,000,000 shares authorized, 12,383,111 shares issued and outstanding	1,238	1,238
Additional Paid-In Capital	3,074,880	3,048,045
Retained Earnings	7,878,067	3,895,188
Accumulated Other Comprehensive Income (Loss)	(1,980)	—
Total Shareholders' Equity	10,952,205	6,944,471
Total Liabilities and Shareholders' Equity	$ 16,114,051	$ 10,536,291

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

TARGETED MEDICAL PHARMA, INC.

CONSOLIDATED STATEMENTS OF INCOME
December 31, 2009 and 2008

	2009	2008
Revenues:		
Product Sales	$ 11,494,141	$ 11,801,748
Service Revenue	705,074	359,715
Total Revenue	12,199,215	12,161,463
Cost of Product Sales	1,257,727	2,119,370
Total Gross Profit	10,941,488	10,042,093
Operating Expenses:		
Research and Development Expenses	21,599	9,032
Selling Expenses	163,743	232,198
General and Administrative Expenses	4,997,442	5,147,359
Total Operating Expenses	5,182,784	5,388,589
Net Income before Other Income	5,758,704	4,653,504
Other Income		
Interest Income	290	1,688
Dividend Income	6,890	—
Total Other Income	7,180	1,688
Net Income before Taxes	5,765,884	4,655,192
Deferred Income Tax Expense	1,742,500	1,242,332
Income Taxes	40,505	19,800
Net Income before Comprehensive Income	3,982,879	3,393,060
Unrealized Loss on Investments	(1,980)	—
Comprehensive Income	$ 3,980,899	$ 3,393,060
Basic and Diluted Earnings Per Share	$ 0.32	$ 0.27
Basic and Diluted		
Weighted Average Number of Common Shares Outstanding	12,383,111	12,340,611

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

TARGETED MEDICAL PHARMA, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years ended December 31, 2009 and 2008

	Number of Shares of Common Stock	Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance – January 1, 2008	12,332,111	$ 1,233	$2,871,982	$ 502,128	$ —	$ 3,375,343
Issuance of Stock per License Dispute Settlement	42,000	4	100,796			100,800
Issuance of Stock for Services	9,000	1	21,599			21,600
Stock Option Expense	—	—	53,668	—	—	53,668
Net Income	—	—	—	3,393,060	—	3,393,060
Balance – December 31, 2008	12,383,111	1,238	3,048,045	3,895,188	—	6,944,471
Stock Option Expense			26,835			26,835
Net Income	—	—	—	3,982,879	—	3,982,879
Unrealized Loss on Investments	—	—	—	—	(1,980)	(1,980)
Balance – December 31, 2009	12,383,111	$ 1,238	$ 3,074,880	$ 7,878,067	$ (1,980)	$ 10,952,205

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

TARGETED MEDICAL PHARMA, INC.

CONSOLIDATED STATEMENTS OF CASH FLOW
Years ended December 31, 2009 and 2008

	2009	2008
Cash Flows from Operating Activities:		
Net Income	$ 3,982,879	$ 3,393,060
Adjustments:		
Depreciation and Amortization	121,038	73,404
Bad Debt Allowance	—	560,245
Stock Compensation	26,835	75,268
Issuance of Stock per License Dispute Settlement	—	100,800
Deferred Income Taxes	1,742,500	1,242,332
Changes:		
Accounts Receivable	(4,975,840)	(4,821,776)
Inventory	175,032	(117,630)
Prepaid Taxes	357,603	(339,369)
Prepaid Expenses	(244,015)	(127,031)
Loans Receivable – Employees	(98,021)	(25,416)
Other Assets	(25,000)	—
Accounts Payable and Accrued Expenses	(248,673)	(52,134)
Taxes Payable	76,199	88,210
Net Cash Flows from Operating Activities	890,537	49,963
Cash Flows from Investing Activities:		
Purchase of Investments	(543,260)	—
Internally Developed Software costs	(63,640)	(113,607)
Purchases of Property and Equipment	(775,102)	(50,539)
Net Cash Flows from Investing Activities	(1,382,002)	(164,146)
Cash Flows from Financing Activities	—	—
Net Change in Cash and Cash Equivalents	(491,465)	(114,183)
Cash and Cash Equivalents – Beginning of Year	812,681	926,864
Cash and Cash Equivalents – End of Year	$ 321,216	$ 812,681
Supplemental Disclosure of Cash Flow Information		
Interest Paid	296	16
Income Taxes Paid (Refunded)	(393,377)	370,594
Non-Cash Investing and Financing Activities		
Receipt of internet domain name for in exchange for Accounts Receivable	1,301,568	—

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

TARGETED MEDICAL PHARMA, INC.

Notes to Consolidated Financial Statements
December 31, 2009 and 2008

Note 1: Business Activity

TARGETED MEDICAL PHARMA, INC. ("Targeted") manufactures nutrient based therapeutic products and owns 100% of Physician Therapeutics LLC ("Physician Therapeutics"), which distributes specialty pharmacy products to dispensing physicians. On January 1, 2007, Targeted acquired 100% of Laboratory Industry Services LLC ("Laboratory Industry"), which is a facility for the performance of diagnostic testing. On July 30, 2007, the Company formed Complete Claims Processing, Inc. ("Complete Claims"), which provides collection services of invoices submitted by Targeted on physicians' behalf.

Segment Information:

Targeted operations are organized into four reportable segments: Targeted, Physician Therapeutics, Complete Claims and Laboratory Industry.

- Targeted: This segment contains the administrative, regulatory compliance, sales and marketing functions of the corporation. It 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 Targeted segment also manages contracts and chargebacks.
- Physician Therapeutics: This segment manufactures and distributes prescription-only medical food products. The segment also distributes medical food, generic and branded products through a physician dispensing network.
- Complete Claims: 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.
- Laboratory Industry: This segment provides diagnostic testing services to public, private and academic institutions. Testing is performed by licensed or certified non-physician personnel under appropriate physician supervision.

Segment Information for the year ending December 31, 2009	Total	Targeted	Physician Therapeutics	Complete Claims	Laboratory Industry
Gross Sales	12,199,215	—	11,494,141	705,074	—
Gross Profit	10,941,488	—	10,236,414	705,074	—
Net Income	5,758,704	(4,270,573)	9,842,990	207,673	(21,386)
Total Assets	26,276,933	2,558,224	9,492,268	13,741,649	484,792
Less: Eliminations	(10,162,882)	(819,689)	4,534,159	(13,745,991)	(131,361)
Net Total Assets	16,114,051	1,738,535	14,026,427	(4,342)	353,431

Segment Information for the year ending December 31, 2008	Total	Targeted	Physician Therapeutics	Complete Claims	Laboratory Industry
Gross Sales	12,135,265	—	11,767,740	359,715	7,810
Gross Profit	10,042,093	—	9,648,370	385,913	7,810
Net Income	4,653,504	(4,191,115)	8,496,187	349,122	(690)
Total Assets	12,639,366	1,622,445	4,727,794	5,782,949	506,178
Less: Eliminations	(2,103,075)	(766,701)	4,493,459	(5,698,472)	(131,361)
Net Total Assets	10,536,291	855,744	9,221,253	84,477	374,817

TARGETED MEDICAL PHARMA, INC.

Notes to Consolidated Financial Statements
December 31, 2009 and 2008

Note 2: Summary of Significant Accounting Policies

Principles of consolidation: The consolidated financial statements include accounts of Targeted and its wholly owned subsidiaries, Complete Claims, Laboratory Industry and Physician Therapeutics, collectively referred to as "the Company". All significant intercompany accounts and transactions have been eliminated in consolidation. In addition, Targeted and the subsidiaries share the common operating facility, certain employees and various costs. Such expenses are principally paid by Targeted. Due to the nature of the parent and subsidiaries relationship, the individual financial position and operating results of Targeted and the subsidiaries 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 cash and trade accounts receivable. The Company maintains its cash balances at high credit quality financial institutions. The balances, at times, may exceed federally insured limits.

Allowance for doubtful accounts: Extended collection periods are typical in this industry with payment terms extending from 45 days up to two years. Bad debts are recognized on the allowance method based on historical experience, contractual payment terms and management's evaluation of outstanding accounts receivable.

In addition to the bad debt recognition policy above, it is also Targeted's policy to write down uncollectible loans and trade receivables when the payor 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.

As of December 31, 2009 and December 31, 2008, the allowance for doubtful accounts was approximately $521,016.

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 and amortization are provided for by the straight line method over the estimated useful lives of the related assets. Computer equipment and software are 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 are 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 at December 31, 2009 or at December 31, 2008.

TARGETED MEDICAL PHARMA, INC.

Notes to Consolidated Financial Statements
December 31, 2009 and 2008

Note 2: Summary of Significant Accounting Policies – (continued)

Indefinite lived intangible assets: Indefinite lived intangible assets are measured for impairment at least annually, and more often when events indicate that an impairment may exists. Intangible assets with finite lives, including patents, 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 and accounts payable. The recorded values of accounts receivable and accounts payable approximate their values based on their short term nature.

Revenue Recognition:

Targeted records revenues from product sales when the goods are shipped and title passes to the customer. At the time of sale, estimates for a variety of sales deductions such as rebates, discounts and product returns are recorded.

In the pharmaceutical industry, gross product sales are subject to a variety of deductions that generally are estimated and recorded in the same period that the revenues are recognized. These deductions typically represent rebates and discounts to government agencies, wholesalers, distributors and managed care organizations. These deductions represent estimates of the related obligation and, as such, judgment and knowledge of market conditions and practice are required when estimating the impact of these sales deductions on gross sales for a reporting period.

Specifically,

- In the U.S., we record provisions for pharmaceutical Medicaid, Medicare and contract rebates based upon our experience ratio of rebates paid and actual prescriptions written during prior quarters. We apply the experience ratio to the respective period's sales to determine the rebate accrual and related expense. This experience ratio is evaluated regularly to ensure that the historical trends are as current as practicable. As appropriate, we will adjust the ratio to better match our current experience or our expected future experience. In assessing this ratio, we consider current contract terms, such as changes in formulary status and discount rates. If our ratio is not indicative of future experience, our results could be materially affected.
- Provisions for pharmaceutical chargebacks (primarily reimbursements to wholesalers for honoring contracted prices to third parties) closely approximate actual as we settle these deductions generally within twelve weeks of incurring the liability.
- Provisions for pharmaceutical returns are based on a calculation in each market that incorporates the following, as appropriate: local returns policies and practices; returns as a percentage of sales; an understanding of the reasons for past returns; estimated shelf life by product; and an estimate of the amount of time between shipment and return or lag time; and any other factors that could impact the estimate of future returns, such as loss of exclusivity, product recalls or a changing competitive environment. In most markets, returned products are destroyed, and customers are refunded the sales price in the form of a credit. Historically, our adjustments to actual have not been material; on a quarterly basis, they generally have been less than 1.0% of pharmaceutical net sales and can result in a net increase to income or a net decrease to income. The sensitivity of our estimates can vary by program, type of customer and geographic location. However, estimates associated with U.S. Medicaid and

TARGETED MEDICAL PHARMA, INC.

Notes to Consolidated Financial Statements
December 31, 2009 and 2008

Note 2: Summary of Significant Accounting Policies – (continued)

contract rebates are most at-risk for material adjustment because of the extensive time delay between the recording of the accrual and its ultimate settlement, an interval that can range up to one year. Because of this time lag, in any given quarter, our adjustments to actual can incorporate revisions of several prior quarters.

- Complete Claims Processing, Inc. (Complete Claims) recognizes revenue monthly in an amount equivalent to a contractually-determined percentage of the total of claims paid.
- In April 2010, the FASB issued new accounting guidance which amends "Revenue Recognition" and provides guidance on defining a milestone under "Revenue Recognition" and determining when it may be appropriate to apply the milestone method of revenue recognition for research and development transactions. Consideration that is contingent on achievement of a milestone in its entirety may be recognized as revenue in the period in which the milestone is achieved only if the milestone is judged to meet certain criteria to be considered substantive. Milestones should be considered substantive in their entirety and may not be bifurcated. An arrangement may contain both substantive and non-substantive milestones that should be evaluated individually. The objective of the amendments is to provide guidance related to the use of the milestone method as authoritative guidance on this topic did not previously exist. The amendments are effective on a prospective basis for milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010. We have evaluated this new guidance, and have determined that it will not have a significant impact on the determination or reporting of our financial results.

Advertising: Advertising costs are expensed as incurred. There were no material advertising expenses in the years ended December 31, 2009 and December 31, 2008.

Shipping and handling: All amounts billed to a customer in a sales transaction related to shipping and handling are classified as revenue and costs incurred for shipping and handling are included in operating expenses. Shipping and handling costs were $13,837 for the year ended December 31, 2009. There were no shipping and handling costs in the year ending December 31, 2008.

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.

TARGETED MEDICAL PHARMA, INC.

Notes to Consolidated Financial Statements
December 31, 2009 and 2008

Note 2: Summary of Significant Accounting Policies – (continued)

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 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:

At December 31,	2009	2008
Options outstanding	186,000	124,000

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.

Note 3: Net Property and Equipment

Net Property and Equipment for the year ending December 31,	2009	2008
Computer Equipment	$ 370,725	$ 153,545
Software	492,185	203,868
Furniture and Fixtures	204,094	168,809
Leasehold Improvements	204,530	—
Total, at cost	$1,271,534	$ 526,222
Accumulated Depreciation and Amortization	(414,835)	(323,587)
Total Property and Equipment	$ 856,699	$ 202,635

Depreciation expense as of December 31, 2009 and December 31, 2008 was $91,248 and $66,348, respectively. All depreciation is recorded as part of General and Administrative expenses.

TARGETED MEDICAL PHARMA, INC.

Notes to Consolidated Financial Statements
December 31, 2009 and 2008

Note 4: Stock Based Compensation

For the year ended December 31, 2009 and 2008, the Company recorded compensation costs for options amounting to $26,835 and $53,668, 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 options used was based on the contractual life of the option granted.

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

	Number of Shares Remaining Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2008	186,000	1.15	12 Years	0
Options granted	0			0
Options exercised during 2008	0			
Options forfeited during 2008	0			
Outstanding at December 31, 2008	186,000	1.15	11 Years	0
Exercisable at December 31, 2008	124,000	1.15	11 Years	0
Outstanding at January 1, 2009	186,000	1.15		0
Options granted	0			0
Options exercised during 2009	0			
Options forfeited during 2009	0			
Outstanding at December 31, 2009	186,000	1.15	10 Years	0
Exercisable at December 31, 2009	186,000	1.15	10 Years	0

There were no options granted during the year ended December 31, 2009 and 2008. The total fair value of shares that vested during the year ended December 31, 2009 and 2008 was $26,835 and $53,668, respectively.

TARGETED MEDICAL PHARMA, INC.

Notes to Consolidated Financial Statements
December 31, 2009 and 2008

Note 4: Stock Based Compensation – (continued)

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

	Number of Non-vested Shares	Weighted Average fair Value at Grant Date
Non-vested at December 31, 2008	62,000	0.4328
Non-vested granted – year ended December 31, 2009	0	
Vested	62,000	0.4328
Non-vested at December 31, 2009	0	0

As of December 31, 2009, the unrecognized compensation cost related to non-vested share based compensation arrangements granted under the plan was approximately $-0-.

Note 5: Investments and Fair Value Measurements

Investments: The Company records its investments in accordance with ASC 320-10 Accounting for Certain Investments in Certain Debt and Equity Securities. As of December 31, 2009 and 2008, the Company has classified its portfolio as available-for-sale securities. These securities are recorded at fair value, based on quoted market prices in an active market, with net unrealized holding gains and losses reported in stockholders' equity as accumulated other comprehensive income. At December 31, 2009 and 2008 the carrying value of investments approximated fair market value, and are classified as Level 1 Assets as defined by ASC 820-10.

Fair Value Measurements: The Company defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The fair value hierarchy is based on three levels of inputs that may be used to measure fair value, of which the first two are considered observable and the last is considered unobservable:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following table represents our fair value hierarchy for financial assets (cash equivalents and investments) measured at fair value on a recurring basis. Level 1 available-for-sale investments are primarily comprised of investments in U.S. Treasury securities, valued using market prices in active markets. Level 2 investment valuations are obtained from readily-available pricing sources for comparable instruments. A majority of our investments are priced by pricing vendors and are classified as Level 2 investments, as these vendors either provide a quoted market price in an active market or use observable inputs.

TARGETED MEDICAL PHARMA, INC.

Notes to Consolidated Financial Statements
December 31, 2009 and 2008

Note 5: Investments and Fair Value Measurements – (continued)

Assets measured at fair value as of December 31, 2009 and December 31, 2008 are summarized as follows:

Investments on December 31, 2009	Fair Value	Level 1
US Treasury securities	$ 88,600	$ 88,600
Corporate bonds and notes	452,680	452,680
Total	**$ 541,280**	**$ 541,280**

The company had no investments in the year ending December 31, 2008. Unrealized losses in the year ending December 31, 2009 totaled $1980; there were no realized gains or losses. The company had no Level 2 or Level 3 assets in the year ending December 31, 2009.

Note 6: Intangible Assets

For the year ending December 31,	2009	2008
Patents	$ 152,578	$ 59,148
Internally Developed Software	84,681	84,681
Total, at cost	$ 237,259	$ 143,829
Accumulated Amortization	36,846	7,056
Net Intangible Assets	$ 200,413	$ 136,773
Intangible Assets held at cost:		
URL medicalfoods.com	1,301,568	—
Total Intangible Assets	$1,501,981	$ 136,773

Amortization over the next five years is as follows:

2010	$ 28,000
2011	$ 25,000
2012	$ 25,000
2013	$ 25,000
2014	$ 25,000

Amortization expense as of December 31, 2009 and December 31, 2008 was $29,790 and $7,056, respectively.

Note 7: 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 six 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.

Revenue Concentration

Targeted evaluates revenue concentration on a quarterly basis.

Distributors purchase product from Targeted and resell those products to dispensing physicians. Clients are those dispensing physicians to whom Targeted sells product directly. On December 31, 2009, Targeted had three distributors that represented 27%, 16% and 11% of gross sales, respectively. Loss of one or more of

TARGETED MEDICAL PHARMA, INC.

Notes to Consolidated Financial Statements
December 31, 2009 and 2008

Note 7: Concentrations – (continued)

these three distributors could significantly impact the Company's revenue. Targeted's largest single client represented 6% of gross sales in the year ending December 31, 2009.

On December 31, 2008, Targeted had one distributor that represented 11% of gross sales. Loss of this distributor, which did not occur, could have significantly impacted the Company's revenue. Targeted's largest single client represented 18% of gross sales in the year ending December 31, 2008.

Note 8: Lease Commitments

The Company leases its operating facility under a lease agreement expiring February 28, 2012. The Company, as lessees, is required to pay for all insurance, repairs and maintenance and any increases in real property taxes over the lease period. The Company's net rent expense for the years ended December 31, 2009 and December 31, 2008 were approximately $136,000 and $64,000, respectively.

Minimum annual rentals for the fiscal years ending December 31 are as follows:

2010	150,000
2011	150,000
2012	25,000
Total	$ 325,000

Note 9: Defined Contribution Plans

The Company has a profit sharing plan for the benefit of eligible employees. The Company makes contributions to the plan out of its net profits in such amounts as the Board of Directors determines. The contribution each year in no event exceeds the maximum amount allowable under applicable provisions of the Internal Revenue Code. Contributions of $143,880 were provided by the Company to the plan for the year ended December 31, 2009 and recognized in the same year. Contributions of $149,032 were provided by the Company to the plan for the year ended December 31, 2008 and recognized in the same year. Targeted also sponsors a 401(k) plan. The company is not responsible for matching employee contributions.

Note 10: Income Taxes

Income taxes consisted of the following:

For the year ended December 31,	2009	2008
Income Tax Expense:		
Federal	$ 6,880	$ 6,001
State	33,625	13,799
Total	$ 40,505	$ 19,800

Reconciliation of the statutory federal income tax rate to the Company's effective tax rate is as follows:

For the year ended December 31,	2009	2008
Statutory federal income tax rate	-34.0%	-34.0%
State income taxes, net of federal benefit	-5.8%	-5.8%
Change in valuation and Other	71.7%	66.9%
Provision for Income Tax	31.9%	27.1%

Income taxes are disproportionate to income due to cash basis for tax return.

TARGETED MEDICAL PHARMA, INC.

Notes to Consolidated Financial Statements
December 31, 2009 and 2008

Note 10: Income Taxes – (continued)

The Company files income tax returns in the United States federal and California jurisdictions. With a few exceptions, the Company is no longer subject to United States federal, state and local or foreign income tax examinations by tax authorities for tax years before 2004. The tax years subsequent to 2003 contain matters that could be subject to differing interpretations of applicable tax laws and regulations as it related to the amount and/or timing of income, deductions and tax credits. Although the outcome of tax examinations is always uncertain, the management believes that the Company has made adequate provision for all income tax uncertainties pertaining to these open years.

Note 11: Recently Issued Accounting Pronouncements

Business Combinations: In December 2007, the Financial Accounting Standards Board (FASB) issued new accounting guidance on business combinations and non-controlling interests in consolidated financial statements. This new guidance retains the fundamental requirements in previous guidance for business combinations requiring that the use of the purchase method be used for all business combinations. The acquirer is required to recognize the assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree at the acquisitions date, measured at their fair values as of that date. Additionally, business combinations will now require that acquisition costs to be expenses as incurred, the recognition of contingencies, restructuring costs associated with a business combination must generally be expenses and changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally will affect income tax expense. This guidance applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, which is fiscal year 2009 for the Company.

In April 2009, the FASB revised and clarified the authoritative guidance related to the initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. Generally, assets acquired and liabilities assumed in a business combination that arise from contingencies must be recognized at fair value at the acquisition date. This guidance will be effective for the Company as of January 1, 2009. As this guidance is applied prospectively to business combinations with an acquisition date on or after the date the guidance became effective, the impact to the Company cannot be determined until the transactions occur.

Non-controlling Interests in Consolidated Financial Statements: In December 2007, the FASB issued authoritative guidance clarifying that a non-controlling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. This guidance requires that a change in a parent's ownership interest in a subsidiary be reported as an equity transaction in the consolidated financial statements when it does not result in a change in control of the subsidiary. When a change in a parent's ownership interest results in deconsolidation, a gain or loss should be recognized in the consolidated financial statements. This guidance will be applied prospectively and is effective for fiscal years beginning on or after December 15, 2008, which is January 1, 2009 for the Company, except for the presentation and disclosure requirements, which will be applied retrospectively for all periods presented. The effect of adoption of this guidance on the Company's consolidated financial statements will depend primarily on the materiality of non-controlling interests arising in future transactions. The adoption of this guidance did not have a material impact on its consolidated financial statements.

Derivative Instrument and Hedging Activity Disclosures: In March 2008, the FASB amended and expanded the disclosure requirements related to derivative instruments and hedging activities by requiring enhanced disclosures about how and why an entity uses derivative instruments, how an entity accounts for derivative instruments and related hedged items and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. The revised guidance requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related

TARGETED MEDICAL PHARMA, INC.

Notes to Consolidated Financial Statements
December 31, 2009 and 2008

Note 11: Recently Issued Accounting Pronouncements – (continued)

contingent features in derivative agreements. This guidance was effective for the Company as of January 1, 2009. The adoption of this guidance did not have a material impact on its consolidated financial statements.

Fair Value Measurements: In February 2008, the FASB delayed the effective date of fair value measurement and disclosure guidance for all nonrecurring fair value measurements of nonfinancial assets and liabilities until fiscal years beginning after November 15, 2008. The delayed guidance became effective for all nonrecurring nonfinancial assets and liabilities of the Company as of January 1, 2009 and did not impact the financial performance of the Company.

In April 2009, the FASB issued authoritative guidance clarifying that fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants under current market conditions. This new guidance requires an evaluation of whether there has been a significant decrease in the volume and level of activity for the asset or liability in relation to normal market activity for the asset or liability. If there has, transactions or quoted prices may not be indicative of fair value and an adjustment may need to be made to those prices to estimate fair value. Additionally, an entity must consider whether the observed transaction was orderly (that is, not distressed or forced). If the transaction was orderly, the obtained price can be considered a relevant observable input for determining fair value. If the transaction is not orderly, other valuation techniques must be used when estimating fair value. This guidance was adopted for the period ending December 31, 2009. The adoption of this guidance did not have a material impact to the Company's results of operations, cash flows or financial positions.

In August 2009, the FASB issued authoritative guidance clarifying the measurement of the fair value of a liability in circumstances when a quoted price in an active market for an identical liability is not available. The guidance emphasizes that entities should maximize the use of observable inputs in the absence of quoted prices when measuring the fair value of liabilities. This guidance did not have a material impact on our consolidated financial statements.

In September 2009, the FASB issued authoritative guidance that provides further clarification for measuring the fair value of investments in entities that meet the FASB's definition of an investment company. This guidance permits a company to estimate the fair value of an investment using the net asset value per share of the investment if the net asset value is determined in accordance with the FASB's guidance for investment companies as of the company's measurement date. This creates a practical expedient to determining a fair value estimate and certain attributes of the investment (such as redemption restrictions) will not be considered in measuring fair value. Additionally, companies with investments within the scope of this guidance must disclose additional information related to the nature and risks of the investments. This guidance will become effective for the Company as of October 31, 2010 and is required to be applied prospectively. The Company does not expect that adoption of this statement will have a material impact on its consolidated financial statements.

Accounting Standards Codification: In June 2009, the FASB issued authoritative guidance which replaced the previous hierarchy of U.S. GAAP and establishes the FASB Codification as the single source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. SEC rules and interpretive releases are also sources of authoritative U.S. GAAP for SEC registrants. This guidance modifies the U.S. GAAP hierarchy to include only two levels of U.S. GAAP: authoritative and non-authoritative. This guidance was effective for the Company for the year ended December 31, 2009. The adoption of this guidance did not impact the Company's results of operations, cash flows or financial positions since the FASB Codification is not intended to change or alter existing U.S. GAAP.

Revenue Arrangements with Multiple Deliverables: In October 2009, the FASB issued authoritative guidance that amends existing guidance for identifying separate deliverables in a revenue-generating transaction where multiple deliverables exist, and provides guidance for allocating and recognizing revenue based on those separate deliverables. The guidance is expected to result in more multiple-deliverable

TARGETED MEDICAL PHARMA, INC.

Notes to Consolidated Financial Statements
December 31, 2009 and 2008

Note 11: Recently Issued Accounting Pronouncements – (continued)

arrangements being separable than under current guidance. This guidance is effective for the Company beginning on January 1, 2011 and is required to be applied prospectively to new or significantly modified revenue arrangements. The Company has not engaged in multiple deliverable arrangements through the issuance of these financial statements and as such the guidance has no impact on the Company's reporting or performance.

Subsequent Events: In May 2009, the FASB issued authoritative guidance which incorporates the principles and accounting guidance for recognizing and disclosing subsequent events that originated as auditing standards into the body of authoritative literature issued by the FASB, and prescribes disclosures regarding the date through which subsequent events have been evaluated. The Company is required to evaluate subsequent events through the date the financial statements are issued or available to be issued. This guidance was effective for the Company for the period ended December 31, 2009. Since this guidance is not intended to significantly change the current practice of reporting subsequent events, it did not have an impact on the Company's results of operations, cash flows or financial positions.

Note 12: Subsequent Events

Through the issuance of these financial statements:

Memorialized by a letter of intent signed on October 20, 2010, Targeted entered formal discussions with a leading, multi-national functional ingredient manufacturer in respect to joint development of products. The scope of the relationship includes joint completion of research and regulatory approval. This collaborative arrangement, guided by a contractual agreement, will likely involve joint operating activity, a research and/or commercialization effort, where both Targeted and its partner are active participants in the activity and are exposed to the risks and rewards of the activity. The activity will include developing, commercializing, marketing, promoting, manufacturing and/or distributing a prescription-only medical food product for the management of asthma. Estimates of the impact of this event cannot be reasonably made at this time.

On November 8, 2010, we entered into a binding letter of intent with AFH Holding and Advisory, LLC to enter into a business combination pursuant to a merger, share exchange or otherwise agreed to transaction to merge our company with a publicly trading shell corporation owned and controlled by AFH Advisory, AFH Acquisition III, Inc. The letter of intent contemplates that AFH Advisory shall assist us in completing up to $1 million in either debt or equity. AFH Advisory shall use its best efforts to assist closing this Private Financing within 45 days of the Scheduled Closing Date. We may elect in our sole discretion, at any time prior to the Scheduled Closing Date not to complete the Private Financing with no adverse effect. In addition, thereafter, AFH Advisory shall assist us in conducting a sale of the resulting in gross proceeds in the amount of $25 million. In consideration of AFH Advisory's services and upon successful closing of not less than $20 million of the $25 million Offering and simultaneous closing of the private sale of $4 million in stock of certain of our Affiliates, AFH Advisory shall own 10% of the issued and outstanding shares of AFH Acquisition III, Inc. after giving effect to the issuance of any securities in connection with the Offering. We intend to use the proceeds for expansion and working capital.

As this transaction has not been finalized, we do not know what its ultimate impact, nor the ultimate impact of our intentions, will be on our financial statements.

On June 25, 2010, the Company issued 10,000 shares of common stock for services rendered. Fair value was determined based on the value of services rendered.

TARGETED MEDICAL PHARMA, INC.

Notes to Consolidated Financial Statements
December 31, 2009 and 2008

Note 12: Subsequent Events – (continued)

TARGETED MEDICAL PHARMA, INC.

CONSOLIDATED BALANCE SHEETS
September 30, 2010 and December 31, 2009

	September 30, 2010 (unaudited)	December 31, 2009
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 226,992	$ 321,216
Investments	137,931	541,280
Inventory	336,070	352,886
Accounts Receivable – Net of Allowance for Doubtful Accounts	19,822,771	11,787,175
Loans Receivable – Employees	221,578	123,437
Prepaid Expenses – Short Term	131,362	309,563
Prepaid Taxes	89,779	—
Deferred Tax Asset	207,500	207,500
Total Current Assets	21,173,983	13,643,057
Property and Equipment – Net of Accumulated Depreciation	1,101,138	856,699
Intangible Assets – Net of Accumulated Amortization	1,522,745	1,501,981
Prepaid Expenses – Long Term	401,405	86,314
Other Assets	26,000	26,000
Total Assets	$ 24,225,271	$ 16,114,051
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Accounts Payable and Accrued Expenses	$ 442,079	$ 410,047
Taxes Payable	—	76,199
Total Current Liabilities	442,079	486,246
Deferred Income Taxes	8,017,700	4,675,600
Total Liabilities	8,459,779	5,161,846
Stockholders' equity:		
Shareholders' Equity		
Common stock, $0.0001 par value; 60,000,000 shares authorized, 12,383,111 shares issued and outstanding	1,239	1,238
Additional Paid-In Capital	3,199,500	3,074,880
Retained Earnings	12,571,097	7,878,067
Accumulated Other Comprehensive Income (Loss)	(6,344)	(1,980)
Total Shareholders' Equity	15,765,492	10,952,205
Total Liabilities and Shareholders' Equity	$ 24,225,271	$ 16,114,051

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

TARGETED MEDICAL PHARMA, INC

CONSOLIDATED STATEMENTS OF INCOME
Nine Months Ended
September 30, 2010 and 2009
(Unaudited)

	2010	2009
Revenues:		
Product Sales	$ 12,938,362	$ 8,524,331
Service Revenue	963,788	501,099
Total Revenue	13,902,150	9,025,430
Cost of Product Sales	948,645	965,401
Total Gross Profit	12,953,505	8,060,029
Operating Expenses		
Research and Development Expenses	7,340	298,413
Selling Expenses	116,601	77,272
General and Administrative Expenses	4,789,787	3,630,989
Total Operating Expenses	4,913,728	4,006,674
Net Income before Other Income	8,039,777	4,053,355
Other Income and (Expenses)		
Interest Income (Expense)	11	573
Dividend Income	4,329	—
Gain on Sale of Investments	705	—
Total Other Income and (Expenses)	5,045	573
Net Income before Taxes	8,044,822	4,053,928
Deferred Income Tax Expense	3,342,100	1,512,423
Income Taxes	9,692	15,885
Net Income before Comprehensive Income	4,693,030	2,525,620
Unrealized Loss on Investments	(4,364)	(785)
Comprehensive Income	$ 4,688,666	$ 2,524,835
Basic and Diluted Gain Per Share	$ 0.38	$ 0.20
Basic and Diluted		
Weighted Average Number of Common Shares Outstanding	12,388,111	12,383,111

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

TARGETED MEDICAL PHARMA, INC

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Nine months ended September 30, 2010

	Number of Shares of Common Stock	Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income Loss	Total
Balance – January 1, 2009	12,383,111	$ 1,238	$ 3,048,045	$ 3,895,188	$ —	$ 6,944,471
Stock Option Expense	—	—	20,126	—	—	20,126
Net Income	—	—	—	2,525,620	—	2,525,620
Unrealized loss on invesments	—	—	—	—	(785)	(785)
Balance – September 30, 2009	12,383,111	1,238	3,068,171	6,420,808	(785)	9,489,432
Stock Option Expense	—	—	6,709	—	—	6,709
Net Income	—	—	—	1,457,259	—	1,457,259
Unrealized loss on invesments	—	—	—	—	(1,195)	(1,195)
Balance – December 31, 2009	12,383,111	1,238	3,074,880	7,878,067	(1,980)	10,952,205
Issuance of Stock for Services	10,000	1	49,999	—	—	50,000
Stock Option Expense	—	—	74,621	—	—	74,621
Net Income	—	—	—	4,693,030	—	4,693,030
Unrealized loss on invesments	—	—	—	—	(4,364)	(4,364)
Balance – September 30, 2010	12,393,111	$ 1,239	$ 3,199,500	$12,571,097	$ (6,344)	$15,765,492

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

TARGETED MEDICAL PHARMA, INC.

CONSOLIDATED STATEMENTS OF CASH FLOW
Nine months ended September 30, 2009 and 2008
(Unaudited)

	September 30, 2010	September 30, 2009
Cash Flows from Operating Activities:		
Net Income	$ 4,693,030	$ 2,525,620
Adjustments:		
Depreciation and Amortization	237,313	227,441
Unrealized Loss on Investments	(4,364)	(785)
Stock Compensation	124,620	20,126
Deferred Income Taxes	3,342,100	1,512,363
Changes:		
Accounts Receivable	(8,035,596)	(3,603,968)
Inventory	16,816	192,805
Prepaid Taxes	(131,362)	357,603
Prepaid Expenses	(95,307)	—
Loans Receivable – Employees	(98,141)	(76,799)
Other Assets	—	(25,000)
Accounts Payable	320,425	(158,929)
Accrued Expenses	(288,394)	(389,949)
Taxes Payable	(76,199)	50,653
Net Cash Flows from Operating Activities	4,941	631,181
Cash Flows from Investing Activities:		
(Purchases) and Sales of Investments	487,372	(364,675)
Internally Developed Software costs	(20,764)	(21,099)
Purchases of Property and Equipment	(481,750)	(368,724)
Net Cash Flows from Investing Activities	(15,142)	(754,498)
Cash Flows from Financing Activities	—	—
Proceeds from Issuance of Common Stock	—	—
Net Change in Cash and Cash Equivalents	(10,201)	(123,317)
Cash and Cash Equivalents – Beginning of Year	237,193	812,681
Cash and Cash Equivalents – End of Year	$ 226,992	$ 689,364
Supplemental Disclosure of Cash Flow Information		
Interest Paid	296	16
Income Taxes Paid (Refunded)	(393,377)	370,594
Non-Cash Investing and Financing Activities		
Receipt of internet domain name for in exchange for Accounts Receivable	—	1,301,568

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

TARGETED MEDICAL PHARMA, INC.

Notes to Consolidated Financial Statements
September 30, 2010

Note 1: Business Activity

TARGETED MEDICAL PHARMA, INC. ("Targeted") manufactures nutrient based therapeutic products and owns 100% of Physician Therapeutics LLC ("Physician Therapeutics"), which distributes specialty pharmacy products to dispensing physicians. On January 1, 2007, Targeted acquired 100% of Laboratory Industry Services LLC ("Laboratory Industry"), which is a facility for the performance of diagnostic testing. On July 30, 2007, the Company formed Complete Claims Processing, Inc. ("Complete Claims"), which provides collection services of invoices submitted by Targeted on physicians' behalf.

Segment Information:

Targeted operations are organized into four reportable segments: Targeted, Physician Therapeutics Laboratories, Complete Claims and Laboratory Industry.

- Targeted: This segment contains the administrative, regulatory compliance, sales and marketing functions of the corporation. It 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 Targeted segment also manages contracts and chargebacks.
- Physician Therapeutics: This segment manufactures and distributes prescription-only medical food products. The segment also distributes medical food, generic and branded products through a physician dispensing network.
- Complete Claims: This segment provides point-of-care dispensing solutions to physicians. It is responsible for the research and development of billing methodologies, aggregating innovative technology and best-practices into the daily workflow of physician practices and streamlining payment administration.
- Laboratory Industry: This segment provides diagnostic testing services to public, private and academic institutions. Testing is performed by licensed or certified non-physician personnel under appropriate physician supervision.

Segment Information for the nine months ending September 30, 2010	**Total**	**Targeted**	**Physician Therapeutics**	**Complete Claims**	**Laboratory Industry**
Gross Sales	13,902,150	—	12,938,362	963,788	—
Gross Profit	12,953,505	—	11,989,717	963,788	—
Net Income	8,039,777	(1,989,500)	9,842,990	207,673	(21,386)
Total Assets	45,813,950	(517,349)	20,646,032	25,111,904	573,363
Less: Eliminations	(21,588,679)	2,289,245	1,477,369	(25,127,932)	(227,361)
Net Total Assets	24,225,271	1,771,896	22,123,401	(16,028)	346,002

Segment Information for the year ending September 30, 2009	**Total**	**Targeted**	**Physician Therapeutics**	**Complete Claims**	**Laboratory Industry**
Gross Sales	9,025,430	—	8,524,331	501,099	—
Gross Profit	8,060,029	—	7,558,930	501,099	—
Net Income	4,053,355	(3,709,182)	7,531,867	233,831	(3,161)
Total Assets	17,032,563	3,384,585	6,897,031	6,248,118	502,829
Less: Eliminations	(2,937,172)	(766,701)	4,724,065	(6,763,175)	(131,361)
Net Total Assets	14,095,391	2,617,884	11,621,096	(515,057)	371,468

TARGETED MEDICAL PHARMA, INC.

Notes to Consolidated Financial Statements
September 30, 2010

Note 2: Summary of Significant Accounting Policies

Principles of consolidation: The consolidated financial statements include accounts of Targeted and its wholly owned subsidiaries, Complete Claims, Laboratory Industry and Physician Therapeutics, collectively referred to as "the Company". All significant intercompany accounts and transactions have been eliminated in consolidation. In addition, Targeted and the subsidiaries share the common operating facility, certain employees and various costs. Such expenses are principally paid by Targeted. Due to the nature of the parent and subsidiaries relationship, the individual financial position and operating results of Targeted and the subsidiaries 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 cash and trade accounts receivable. The Company maintains its cash balances at high credit quality financial institutions. The balances, at times, may exceed federally insured limits.

Allowance for doubtful accounts: Extended collection periods are typical in this industry with payment terms extending from 45 days up to two years. Bad debts are recognized on the allowance method based on historical experience, contractual payment terms and management's evaluation of outstanding accounts receivable.

In addition to the bad debt recognition policy above, it is also Targeted's policy to write down uncollectible loans and trade receivables when the payor 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.

As of September 30, 2010, the allowance for doubtful accounts was approximately $521,016.

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 and amortization are provided for by the straight line method over the estimated useful lives of the related assets. Computer equipment and software are 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 are 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 at September 30, 2010.

TARGETED MEDICAL PHARMA, INC.

Notes to Consolidated Financial Statements
September 30, 2010

Note 2: Summary of Significant Accounting Policies – (continued)

Indefinite lived intangible assets: Indefinite lived intangible assets are measured for impairment at least annually and more often when events indicate that an impairment may exists. Intangible assets with finite lives, including patents, 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 and accounts payable. The recorded values of accounts receivable and accounts payable approximate their values based on their short term nature.

Revenue Recognition:

Targeted records revenues from product sales when the goods are shipped and title passes to the customer. At the time of sale, estimates for a variety of sales deductions such as rebates, discounts and product returns are recorded.

In the pharmaceutical industry, gross product sales are subject to a variety of deductions that generally are estimated and recorded in the same period that the revenues are recognized. These deductions typically represent rebates and discounts to government agencies, wholesalers, distributors and managed care organizations. These deductions represent estimates of the related obligation and, as such, judgment and knowledge of market conditions and practice are required when estimating the impact of these sales deductions on gross sales for a reporting period.

Specifically,

- In the U.S., we record provisions for pharmaceutical Medicaid, Medicare and contract rebates based upon our experience ratio of rebates paid and actual prescriptions written during prior quarters. We apply the experience ratio to the respective period's sales to determine the rebate accrual and related expense. This experience ratio is evaluated regularly to ensure that the historical trends are as current as practicable. As appropriate, we will adjust the ratio to better match our current experience or our expected future experience. In assessing this ratio, we consider current contract terms, such as changes in formulary status and discount rates. If our ratio is not indicative of future experience, our results could be materially affected.
- Provisions for pharmaceutical chargebacks (primarily reimbursements to wholesalers for honoring contracted prices to third parties) closely approximate actual as we settle these deductions generally within twelve weeks of incurring the liability.
- Provisions for pharmaceutical returns are based on a calculation in each market that incorporates the following, as appropriate: local returns policies and practices; returns as a percentage of sales; an understanding of the reasons for past returns; estimated shelf life by product; and an estimate of the amount of time between shipment and return or lag time; and any other factors that could impact the estimate of future returns, such as loss of exclusivity, product recalls or a changing competitive environment. In most markets, returned products are destroyed, and customers are refunded the sales price in the form of a credit. Historically, our adjustments to actual have not been material; on a quarterly basis, they generally have been less than 1.0% of pharmaceutical net sales and can result in a net increase to income or a net decrease to income. The sensitivity of our estimates can vary by program, type of customer and geographic location. However, estimates associated with U.S.

TARGETED MEDICAL PHARMA, INC.

Notes to Consolidated Financial Statements
September 30, 2010

Note 2: Summary of Significant Accounting Policies – (continued)

Medicaid and contract rebates are most at-risk for material adjustment because of the extensive time delay between the recording of the accrual and its ultimate settlement, an interval that can range up to one year. Because of this time lag, in any given quarter, our adjustments to actual can incorporate revisions of several prior quarters.

- Complete Claims Processing, Inc. (Complete Claims) recognizes revenue monthly in an amount equivalent to a contractually-determined percentage of the total of claims paid.
- In April 2010, the FASB issued new accounting guidance which amends "Revenue Recognition" and provides guidance on defining a milestone under "Revenue Recognition" and determining when it may be appropriate to apply the milestone method of revenue recognition for research and development transactions. Consideration that is contingent on achievement of a milestone in its entirety may be recognized as revenue in the period in which the milestone is achieved only if the milestone is judged to meet certain criteria to be considered substantive. Milestones should be considered substantive in their entirety and may not be bifurcated. An arrangement may contain both substantive and non-substantive milestones that should be evaluated individually. The objective of the amendments is to provide guidance related to the use of the milestone method as authoritative guidance on this topic did not previously exist. The amendments are effective on a prospective basis for milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010. We have evaluated this new guidance, and have determined that it will not have a significant impact on the determination or reporting of our financial results.

Advertising: Advertising costs are expensed as incurred. There were no material advertising expenses in the nine months ended September 30, 2010.

Shipping and handling: All amounts billed to a customer in a sales transaction related to shipping and handling are classified as revenue and costs incurred for shipping and handling are included in operating expenses. Shipping and handling costs were $37,883 for the nine months ended September 30, 2010.

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.

TARGETED MEDICAL PHARMA, INC.

Notes to Consolidated Financial Statements
September 30, 2010

Note 2: Summary of Significant Accounting Policies – (continued)

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 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:

For the quarters ended September 30, 2010 and December 31, 2009:

	Sep. 30, 2010	Dec. 31, 2009
	(unaudited)	
Options outstanding under the Company's stock option plans	233,083	186,000

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.

Note 4: Concentrations

Major Vendors

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 six 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.

TARGETED MEDICAL PHARMA, INC.

Notes to Consolidated Financial Statements
September 30, 2010

Note 4: Concentrations – (continued)

Revenue Concentration

Targeted evaluates revenue concentration on a quarterly basis.

Distributors purchase product from Targeted and resell those products to dispensing physicians. Clients are those dispensing physicians to whom Targeted sells product directly. On September 30, 2010, Targeted had two distributors that represented 25% and 11% of gross sales, respectively. Loss of one or more of these three distributors could significantly impact the Company's revenue. Targeted's largest single client represented 10% of gross sales in the nine months ending September 30, 2010.

On December 31, 2009, Targeted had three distributors that represented 27%, 16% and 11% of gross sales, respectively. Loss of one or more of these three distributors could significantly impact the Company's revenue. Targeted's largest single client represented 6% of gross sales in the year ending December 31, 2009.

Note 5: Lease Commitments

The Company leases its operating facility under a lease agreement expiring February 28, 2012. The Company, as lessees, is required to pay for all insurance, repairs and maintenance and any increases in real property taxes over the lease period. The Company's net rent expense for the nine months ended September 30, 2010 was $124,407. The Company's net rent expense for the year ended December 31, 2009 was approximately $136,000.

Minimum annual rentals for the fiscal years ending December 31 are as follows:

2010	150,000
2011	150,000
2012	25,000
Total	$ 325,000

Note 6: Recently Issued Accounting Pronouncements

Business Combinations: In December 2007, the Financial Accounting Standards Board (FASB) issued new accounting guidance on business combinations and non-controlling interests in consolidated financial statements. This new guidance retains the fundamental requirements in previous guidance for business combinations requiring that the use of the purchase method be used for all business combinations. The acquirer is required to recognize the assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree at the acquisitions date, measured at their fair values as of that date. Additionally, business combinations will now require that acquisition costs to be expenses as incurred, the recognition of contingencies, restructuring costs associated with a business combination must generally be expenses and changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally will affect income tax expense. This guidance applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, which is fiscal year 2009 for the Company.

In April 2009, the FASB revised and clarified the authoritative guidance related to the initial recognition and measurement, subsequent measurement and accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. Generally, assets acquired and liabilities assumed in a business combination that arise from contingencies must be recognized at fair value at the acquisition date. This guidance will be effective for the Company as of January 1, 2009. As this guidance is applied prospectively to business combinations with an acquisition date on or after the date the guidance became effective, the impact to the Company cannot be determined until the transactions occur.

TARGETED MEDICAL PHARMA, INC.

Notes to Consolidated Financial Statements
September 30, 2010

Note 6: Recently Issued Accounting Pronouncements – (continued)

Non-controlling Interests in Consolidated Financial Statements : In December 2007, the FASB issued authoritative guidance clarifying that a non-controlling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. This guidance requires that a change in a parent's ownership interest in a subsidiary be reported as an equity transaction in the consolidated financial statements when it does not result in a change in control of the subsidiary. When a change in a parent's ownership interest results in deconsolidation, a gain or loss should be recognized in the consolidated financial statements. This guidance will be applied prospectively and is effective for fiscal years beginning on or after December 15, 2008, which is January 1, 2009 for the Company, except for the presentation and disclosure requirements, which will be applied retrospectively for all periods presented. The effect of adoption of this guidance on the Company's consolidated financial statements will depend primarily on the materiality of non-controlling interests arising in future transactions. The adoption of this guidance did not have a material impact on its consolidated financial statements.

Derivative Instrument and Hedging Activity Disclosures : In March 2008, the FASB amended and expanded the disclosure requirements related to derivative instruments and hedging activities by requiring enhanced disclosures about how and why an entity uses derivative instruments, how an entity accounts for derivative instruments and related hedged items and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. The revised guidance requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. This guidance was effective for the Company as of January 1, 2009. The adoption of this guidance did not have a material impact on its consolidated financial statements.

Fair Value Measurements: In February 2008, the FASB delayed the effective date of fair value measurement and disclosure guidance for all nonrecurring fair value measurements of nonfinancial assets and liabilities until fiscal years beginning after November 15, 2008. The delayed guidance became effective for all nonrecurring nonfinancial assets and liabilities of the Company as of January 1, 2009 and did not impact the financial performance of the Company.

In April 2009, the FASB issued authoritative guidance clarifying that fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants under current market conditions. This new guidance requires an evaluation of whether there has been a significant decrease in the volume and level of activity for the asset or liability in relation to normal market activity for the asset or liability. If there has, transactions or quoted prices may not be indicative of fair value and an adjustment may need to be made to those prices to estimate fair value. Additionally, an entity must consider whether the observed transaction was orderly (that is, not distressed or forced). If the transaction was orderly, the obtained price can be considered a relevant observable input for determining fair value. If the transaction is not orderly, other valuation techniques must be used when estimating fair value. This guidance was adopted for the period ending December 31, 2009. The adoption of this guidance did not have a material impact to the Company's results of operations, cash flows or financial positions.

In August 2009, the FASB issued authoritative guidance clarifying the measurement of the fair value of a liability in circumstances when a quoted price in an active market for an identical liability is not available. The guidance emphasizes that entities should maximize the use of observable inputs in the absence of quoted prices when measuring the fair value of liabilities. This guidance did not have a material impact on our consolidated financial statements.

In September 2009, the FASB issued authoritative guidance that provides further clarification for measuring the fair value of investments in entities that meet the FASB's definition of an investment company. This guidance permits a company to estimate the fair value of an investment using the net asset value per share of the investment if the net asset value is determined in accordance with the FASB's guidance for

TARGETED MEDICAL PHARMA, INC.

Notes to Consolidated Financial Statements
September 30, 2010

Note 6: Recently Issued Accounting Pronouncements – (continued)

investment companies as of the company's measurement date. This creates a practical expedient to determining a fair value estimate and certain attributes of the investment (such as redemption restrictions) will not be considered in measuring fair value. Additionally, companies with investments within the scope of this guidance must disclose additional information related to the nature and risks of the investments. This guidance will become effective for the Company as of October 31, 2010 and is required to be applied prospectively. The Company does not expect that adoption of this statement will have a material impact on its consolidated financial statements.

Accounting Standards Codification: In June 2009, the FASB issued authoritative guidance which replaced the previous hierarchy of U.S. GAAP and establishes the FASB Codification as the single source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. SEC rules and interpretive releases are also sources of authoritative U.S. GAAP for SEC registrants. This guidance modifies the U.S. GAAP hierarchy to include only two levels of U.S. GAAP: authoritative and non-authoritative. This guidance was effective for the Company for the year ended December 31, 2009. The adoption of this guidance did not impact the Company's results of operations, cash flows or financial positions since the FASB Codification is not intended to change or alter existing U.S. GAAP.

Revenue Arrangements with Multiple Deliverables: In October 2009, the FASB issued authoritative guidance that amends existing guidance for identifying separate deliverables in a revenue-generating transaction where multiple deliverables exist, and provides guidance for allocating and recognizing revenue based on those separate deliverables. The guidance is expected to result in more multiple-deliverable arrangements being separable than under current guidance. This guidance is effective for the Company beginning on January 1, 2011 and is required to be applied prospectively to new or significantly modified revenue arrangements. The Company has not engaged in multiple deliverable arrangements through the issuance of these financial statements and as such the guidance has no impact on the Company's reporting or performance.

Subsequent Events: In May 2009, the FASB issued authoritative guidance which incorporates the principles and accounting guidance for recognizing and disclosing subsequent events that originated as auditing standards into the body of authoritative literature issued by the FASB, and prescribes disclosures regarding the date through which subsequent events have been evaluated. The Company is required to evaluate subsequent events through the date the financial statements are issued or available to be issued. This guidance was effective for the Company for the period ended December 31, 2009. Since this guidance is not intended to significantly change the current practice of reporting subsequent events, it did not have an impact on the Company's results of operations, cash flows or financial positions.

Note 7: Subsequent Events

Through the issuance of these financial statements:

Memorialized by a letter of intent signed on October 20, 2010, Targeted entered formal discussions with a leading, multi-national functional ingredient manufacturer in respect to joint development of products. The scope of the relationship includes joint completion of research and regulatory approval. This collaborative arrangement, guided by a contractual agreement, will likely involve joint operating activity, a research and/or commercialization effort, where both Targeted and its partner are active participants in the activity and are exposed to the risks and rewards of the activity. The activity will include developing, commercializing, marketing, promoting, manufacturing and/or distributing a prescription-only medical food product for the management of asthma. Estimates of the impact of this event cannot be reasonably made at this time.

On November 8, 2010, we entered into a binding letter of intent with AFH Holding and Advisory, LLC to enter into a business combination pursuant to a merger, share exchange or otherwise agreed to transaction to merge our company with a publicly trading shell corporation owned and controlled by AFH Advisory,

TARGETED MEDICAL PHARMA, INC.

Notes to Consolidated Financial Statements
September 30, 2010

Note 7: Subsequent Events – (continued)

AFH Acquisition III, Inc. The letter of intent contemplates that AFH Advisory shall assist us in completing up to $1 million in either debt or equity. AFH Advisory shall use its best efforts to assist closing this Private Financing within 45 days of the Scheduled Closing Date. We may elect in our sole discretion, at any time prior to the Scheduled Closing Date not to complete the Private Financing with no adverse effect. In addition, thereafter, AFH Advisory shall assist us in conducting a sale of the resulting in gross proceeds in the amount of $25 million. In consideration of AFH Advisory's services and upon successful closing of not less than $20 million of the $25 million Offering and simultaneous closing of the private sale of $4 million in stock of certain of our Affiliates, AFH Advisory shall own 10% of the issued and outstanding shares of AFH Acquisition III, Inc. after giving effect to the issuance of any securities in connection with the Offering. We intend to use the proceeds for expansion and working capital.

As this transaction has not been finalized, we do not know what its ultimate impact, nor the ultimate impact of our intentions, will be on our financial statements.

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Until , 2011, all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

You should rely only on the information contained in or incorporated by reference in this prospectus. We have not, and the underwriters have not, authorized any other person to provide you with any different or additional information. If anyone provides you with different or inconsistent information, you should not rely on it. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of the common stock. Our business, financial conditions, results of operations and prospects may have changed since that date. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any security other than the securities offered by this prospectus or an offer to sell or a solicitation of an offer to buy any securities by anyone in any jurisdiction in which the offer or solicitation is not authorized or is unlawful.

TABLE OF CONTENTS

Prospectus Summary	1
The Offering	5
Risk Factors	6
Cautionary Note Regarding Forward-Looking Statements	23
Use of Proceeds	25
Dilution	27
Dividend Policy	28
Capitalization	28
Management's Discussion and Analysis of Financial Condition and Results of Operations	29
Business	39
Management	72
Principal Stockholders	85
Certain Relationships and Related Party Transactions	87
Description of Securities	88
Underwriting	91
Legal Matters	94
Experts	94
Where You Can Find Additional Information	94
Index to Consolidated Financial Statements	F-1

TARGETED MEDICAL PHARMA, INC.

Shares

PROSPECTUS

Sunrise Securities Corp.

, 2011

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TABLE OF CONTENTS

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

[Alternate Page for Selling Securityholder Prospectus]

PRELIMINARY PROSPECTUS SUBJECT TO COMPLETION, DATED FEBRUARY 14, 2011

TARGETED MEDICAL PHARMA, INC.

21,933,576 Shares

This prospectus relates to the offer for sale of 21,933,576 shares of common stock, par value $0.001 per share, by the existing holders of the securities named in this prospectus, referred to as selling stockholders throughout this prospectus.

The distribution of securities offered hereby may be effected in one or more transactions that may take place in the Nasdaq Capital Market, including ordinary brokers' transactions, privately negotiated transactions or through sales to one or more dealers for resale of such securities as principals, at market prices prevailing at the time of sale, at prices related to such prevailing market prices or at negotiated prices. Usual and customary or specifically negotiated brokerage fees or commissions may be paid by the selling securityholders. No sales of the shares covered by this prospectus shall occur until the shares of common sold in our initial public offering begin trading on the Nasdaq Capital Market.

The selling securityholders and intermediaries through whom such securities are sold may be deemed "underwriters" within the meaning of the Securities Act of 1933, as amended, with respect to the securities offered hereby, and any profits realized or commissions received may be deemed underwriting compensation. We have agreed to indemnify the selling securityholders against certain liabilities, including liabilities under the Securities Act.

On , 2011, a registration statement under the Securities Act with respect to our initial public offering underwritten by Sunrise Securities Corp., as the representative of the underwriters, of $ of shares of common stock was declared effective by the Securities and Exchange Commission. We received approximately $ million in net proceeds from the offering after payment of underwriting discounts and commissions and estimated expenses of the offering.

Investing in our common stock involves a high degree of risk. You should carefully consider the matters discussed under the section entitled "Risk Factors" beginning on page 6 of this prospectus.

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

The date of this prospectus is , 2011.

[Alternate Page for Selling Securityholder Prospectus]

TARGETED MEDICAL PHARMA, INC.

TABLE OF CONTENTS

PROSPECTUS SUMMARY	1
THE OFFERING	5
RISK FACTORS	6
CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS	23
USE OF PROCEEDS	25
DILUTION	27
DIVIDEND POLICY	28
CAPITALIZATION	28
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	29
BUSINESS	39
MANAGEMENT	72
PRINCIPAL STOCKHOLDERS	85
CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS	87
DESCRIPTION OF SECURITIES	88
UNDERWRITING	91
LEGAL MATTERS	94
EXPERTS	94
WHERE YOU CAN FIND ADDITIONAL INFORMATION	94
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS	F-1

You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information different from or in addition to that contained in this prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. We are offering to sell, and are seeking offers to buy, shares of common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of the common stock. Our business, financial conditions, results of operations and prospects may have changed since that date.

We obtained statistical data, market data and other industry data and forecasts used throughout this prospectus from publicly available information. While we believe that the statistical data, market data and other industry data and forecasts are reliable, we have not independently verified the data.

[Alternate Page for Selling Securityholder Prospectus]

SHARES REGISTERED FOR RESALE

Overview

As part of this prospectus, we are registering 21,933,576 shares of common stock for resale.

Registration Rights

In connection with the consummation of the Reorganization, we entered into a Registration Rights Agreement, dated January 31, 2011, for the benefit of the Existing AFH stockholders and the Former TMP Stockholders other than the TMP Insiders. Pursuant to the Registration Rights Agreement, the Existing AFH Stockholders and the Former TMP Stockholders have certain "piggyback" registration rights on registration statements filed after the Reorganization is consummated other than registration statements (i) filed in connection with any employee stock option or other benefit plan, (ii) for an exchange offer or offering of securities solely to our existing shareholders, (iii) for an offering of debt that is convertible into our equity securities ; (iv) for a dividend reinvestment plan or (v) for an offering of our equity securities underwritten by Sunrise Securities Corp. We will bear the expenses incurred in connection with the filing of any such registration statements.

In connection with a private sale of our common stock by the TMP Insiders to certain investors named in the purchase documents related to such sales, we granted certain piggyback registration rights to the investors in such private sales on registration statement other than registration statements (i) filed in connection with any employee stock option or other benefit plan, (ii) for an exchange offer or offering of securities solely to our existing shareholders, (iii) for an offering of debt that is convertible into our equity securities; (iv) for a dividend reinvestment plan or (v) for an offering of our equity securities underwritten by Sunrise Securities Corp. We will bear the expenses incurred in connection with the filing of any such registration statements.

TABLE OF CONTENTS

[Alternate Page for Selling Securityholder Prospectus]

USE OF PROCEEDS

We will not receive any of the proceeds from the sale of the common stock by the selling securityholders named in this prospectus. All proceeds from the sale of the common stock will be paid directly to the selling securityholders.

[Alternate Page for Selling Securityholder Prospectus]

SELLING SECURITYHOLDERS

An aggregate of up to 21,933,576 shares may be offered by certain securityholders.

The following table sets forth certain information with respect to each selling securityholder for whom we are registering shares for resale to the public. No material relationships exist between any of the selling securityholders and us nor have any such material relationships existed within the past three years, except as indicated in the footnotes below.

As indicated in the footnotes below, , or % of the 21,933,576 shares of common stock being offered by the selling securityholders are subject to a lock-up agreement under which the sale of such shares will be restricted for a period of up to twelve months after the date of the prospectus relating to our initial public offering.

The representative of the underwriters may in its sole discretion and at any time without notice release some or all of the shares subject to lock-up agreements prior to the expiration of the lock-up period. When determining whether or not to release shares from the lock-up agreements, the representative will consider, among other factors, the securityholder's reasons for requesting the release, the number of shares for which the release is being requested and market conditions at the time.

			Common Stock Beneficially Owned After Offering	
Selling Securityholder	**Number of Shares of Common Stock Beneficially Owned**	**Shares Being Offered**	**Number of Shares Outstanding**	**Percent of Shares**
AFH Holding & Advisory, LLC +	1,304,850	1,304,850	0	*
Akira Kodama	30,821	30,821	0	*
Andrew H. Jones	1,000	1,000	0	*
Angie O. Lee	1,000	1,000	0	*
Anna Charuvastra +(1)	11,606	11,606	0	*
Anthony Bradford Winters Joint Tenants	1,000	1,000	0	*
Anthony Charuvastra +(1)	11,606	11,606	0	*
Arlene Brateris	1,000	1,000	0	*
Arnold Jay Boisdrenghien	1,000	1,000	0	*
Arnold L. Greenberg	1,000	1,000	0	*
Ashlyn Shell +(1)	11,606	11,606	0	*
Bamm LLC(2)	1,000	1,000	0	*
Battersea Capital, Inc.(3)	1,000	1,000	0	*
Benjamin L. Harrison	2,000	2,000	0	*
Bill Vlachos	10,353	10,353	0	*
Brad Harrison	2,000	2,000	0	*
Brad Markoff Revocable Trust	14,790	14,790	0	*
Bradley C. Underwood	1,000	1,000	0	*
Brenda Chockley	1,000	1,000	0	*
Brian Doherty +(1)	11,606	11,606	0	*
Candace A. Walsh	1,000	1,000	0	*
Carl C. Levine	1,000	1,000	0	*
Carl W. Catlett	1,000	1,000	0	*
Carol J. Grey	1,500	1,500	0	*
Carol N. Levine	1,000	1,000	0	*
Carylyn K. Bell	2,500	2,500	0	*
Cassady Doherty +(1)	11,606	11,606	0	*
Chad K Kirby	1,000	1,000	0	*

TABLE OF CONTENTS

Selling Securityholder	Number of Shares of Common Stock Beneficially Owned	Shares Being Offered	Common Stock Beneficially Owned After Offering	
			Number of Shares Outstanding	Percent of Shares
Charles B Kirby	1,000	1,000	0	*
Charles F. Buczek	1,000	1,000	0	*
Charlotte J. Bruno	1,000	1,000	0	*
Chester Schwartz	2,000	2,000	0	*
Chris Billington	1,500	1,500	0	*
Christa Trujillo	1,000	1,000	0	*
Christopher A. Vallejos	3,081	3,081	0	*
Claudia A. McAdam	2,000	2,000	0	*
Claudia Ruiz +[1]	2,500	2,500	0	*
Colleen F. Williams	1,000	1,000	0	*
Connie M. Jones	1,000	1,000	0	*
Corporate Consulting Services[4]	1,000	1,000	0	*
Crotalus Inc.,[3]	1,000	1,000	0	*
Curtis R. Lefkowitz & Annick-France Tournissac	25,260	25,260	0	*
Cynthia L. Kirby	1,000	1,000	0	*
D. Rick Hayes	1,000	1,000	0	*
Dana LLC[5]	2,000	2,000	0	*
Daniel B. Rudden	1,000	1,000	0	*
Daniel J. Beck	1,000	1,000	0	*
Daniel M. Rowen C/O Dale Arens	66,837	66,837	0	*
Daniel Shell +[1]	11,606	11,606	0	*
Danny Corbitt	5,000	5,000	0	*
David A. Nottingham	1,000	1,000	0	*
David A. Paller	1,000	1,000	0	*
David Black	31,057	31,057	0	*
David Hovey	30,821	30,821	0	*
David J. Gregarek	2,500	2,500	0	*
Deanie J. Underwood	1,000	1,000	0	*
Deanna Becker	1,000	1,000	0	*
Deborah Lowe	2,000	2,000	0	*
Deborah F. Bash	2,500	2,500	0	*
Deborah Lowe custodian for Grace Lowe[6]	2,000	2,000	0	*
Debra A. Ruskey	1,000	1,000	0	*
Debra R. Redmond custodian for Barbara Redmond[7]	1,000	1,000	0	*
Debra R. Redmond Leuthauser	5,000	5,000	0	*
Dena G. Catlett	1,000	1,000	0	*
Dennis D. Postma	1,000	1,000	0	*
Dennis J. Lairamore	1,000	1,000	0	*
Derma Medical Systems, Inc. +	1,106,756	1,106,756	0	*
Diana T. Kurowski	2,000	2,000	0	*
Donna L. Harris	1,000	1,000	0	*
Dorene Harrison	2,000	2,000	0	*
Douglas Harrison	2,000	2,000	0	*

TABLE OF CONTENTS

Selling Securityholder	Number of Shares of Common Stock Beneficially Owned	Shares Being Offered	Common Stock Beneficially Owned After Offering	
			Number of Shares Outstanding	Percent of Shares
Douglas Harrison custodian for Sidney Harrison[8]	2,000	2,000	0	*
Duncan McClelland	1,000	1,000	0	*
EARNCO MPPP[2]	1,000	1,000	0	*
Earnest Mathis	1,000	1,000	0	*
Earnest Mathis Jr.	1,000	1,000	0	*
ECAP Ventures, LLC[2]	1,000	1,000	0	*
EL CHICHON PARTNERS, LLC[9]	1,000	1,000	0	*
Eli Gafni	61,626	61,626	0	*
Elisa Rowen Jaeger C/O Dale Arens	66,837	66,837	0	*
Elizabeth Charuvastra & William Shell Family Trust dated July 27, 2006 and Amended September 29, 2006 +	9,202,643	9,202,643	0	*
Elizabeth Lazzeri	1,000	1,000	0	*
Elizabeth Myslik	1,000	1,000	0	*
Elizabeth Zanetto	1,500	1,500	0	*
Elizabeth Zanetto custodian for Aaron Zanetto[10]	1,500	1,500	0	*
Elizabeth Zanetto custodian for Dylan Zanetto[10]	1,500	1,500	0	*
Elizabeth Zanetto custodian for Sabrina Zanetto[10]	1,500	1,500	0	*
Emery D. Vaughn	1,000	1,000	0	*
Erin Burr	1,000	1,000	0	*
Eugene C. McColley	1,000	1,000	0	*
Farzin Ferdosi, Inc.[11]	1,000	1,000	0	*
Floyd D. Trujillo	1,000	1,000	0	*
Frank Kramer custodian for Brady Myslik[12]	1,000	1,000	0	*
Frank L. Kramer	2,000	2,000	0	*
Frederick A. Huttner	1,000	1,000	0	*
Frederick Sahakian	50,000	50,000	0	*
Front Range Investigations[4]	1,000	1,000	0	*
Gail E. Braden	1,000	1,000	0	*
Gary E. Keogh	1,000	1,000	0	*
Gary J. McAdam	2,000	2,000	0	*
Gayle M. Langley	1,000	1,000	0	*
George F. Lee	1,200	1,200	0	*
George Lee custodian for Eleanor J. Lee [13]	1,200	1,200	0	*
George Lee custodian for Margaret E. Lee [13]	1,200	1,200	0	*
Gerald and Lynnette Hannahs Joint Tenants [14]	1,000	1,000	0	*
Giffoni Family Trust +[15]	3,292,736	3,292,736	0	*
Glenn A. Marshark	42,335	42,335	0	*

Selling Securityholder	Number of Shares of Common Stock Beneficially Owned	Shares Being Offered	Common Stock Beneficially Owned After Offering	
			Number of Shares Outstanding	Percent of Shares
Gloria D. Wood	1,000	1,000	0	*
Gordon G. Burr Jr.	1,000	1,000	0	*
Gordon G. Burr custodian for Ilyana Schilling[9]	1,000	1,000	0	*
Grace Fakhoury	388,369	388,369	0	*
Gregory F. Socha	1,000	1,000	0	*
Gregory L. Cannon	1,000	1,000	0	*
Griffin Ventures LTD	300,000	300,000	0	*3
Growth Ventures, Inc.[16]	2,000	2,000	0	*
Growth Ventures, Inc. Pension Plan and Trust[16]	2,000	2,000	0	*
Growth Ventures, Inc. Roth 401 K[16]	2,000	2,000	0	*
Growth Ventures, Inc. Profit Sharing Plan & Trust[16]	2,000	2,000	0	*
Harriet M. McClelland	1,000	1,000	0	*
Henry M. Billington	1,000	1,000	0	*
Herbert Marshak	133,723	133,723	0	*
Hope Charuvastra + 1	11,606	11,606	0	*
Howard C. Cadwell	1,000	1,000	0	*
HowLyn Equities, LTD[17]	1,500	1,500	0	*
Inovative Naturals, Inc.[18]	1,000	1,000	0	*
Inverness Investments, Inc.[2]	1,000	1,000	0	*
Irene L. Gibbs Trust for benefit of Rosemary L. Owens[19]	1,500	1,500	0	*
Jack D. Kelley	1,000	1,000	0	*
James M. Armstrong	1,000	1,000	0	*
James R. Sjoerdsma	2,000	2,000	0	*
James R. Sjoerdsma custodian for Dustin Sjoerdsma[20]	2,000	2,000	0	*
James R. Sjoerdsma custodian for Mary Ann Sjoerdsma(21)	1,500	1,500	0	*
James R. Sjoerdsma custodian for Paige Sjoerdsma[20]	2,000	2,000	0	*
James Vaughn Sr.	1,000	1,000	0	*
Jana Lynn Anderson	1,000	1,000	0	*
Jane A. Kelley	1,000	1,000	0	*
Jarrold R. Bachmann	1,000	1,000	0	*
Jason Myslik	1,000	1,000	0	*
Jeanne M. Lee	1,200	1,200	0	*
Jeffrey D. Mayotte	1,000	1,000	0	*
Jeffrey P. Bash	2,500	2,500	0	*
Jennifer Gorrell	1,000	1,000	0	*
Jennifer M. Underwood	1,000	1,000	0	*
Jennifer M. Uribe	1,000	1,000	0	*

Selling Securityholder	Number of Shares of Common Stock Beneficially Owned	Shares Being Offered	Common Stock Beneficially Owned After Offering	
			Number of Shares Outstanding	Percent of Shares
Jennifer Uribe custodian for Carmen Uribe [21]	1,000	1,000	0	*
Jennifer Uribe custodian for Roderick L. Uribe III[22]	1,000	1,000	0	*
Jenny Lee	1,000	1,000	0	*
Jerilyn Enander	1,000	1,000	0	*
Jessie Mathis	1,000	1,000	0	*
Joan G. Stanzler	2,000	2,000	0	*
Joe Giffoni	150,849	150,849	0	*
Johanna Doherty +(1)	11,606	11,606	0	*
John Bluher +	102,000	102,000	0	*
John & Elenanor Morris	1,000	1,000	0	*
John C. & Meghan Glotfelty Joint Tenants [22]	1,000	1,000	0	*
John C. Glotfelty	1,750	1,750	0	*
John C. Lee	1,000	1,000	0	*
John J. Clemenson	1,000	1,000	0	*
John M. Lepo	1,000	1,000	0	*
John Morris Consulting 401(K) Trust FBO Eleanor Morris[23]	1,000	1,000	0	*
John Morris Consulting 401(K) Trust FBO John Morris[23]	1,000	1,000	0	*
John Morris Consulting Pension Trust[23]	1,000	1,000	0	*
John P. Masouras	1,000	1,000	0	*
John T McShane custodian for Declan Wyatt McShane[24]	1,000	1,000	0	*
John T McShane custodian for Mason Aiden McShane Andrews[24]	1,000	1,000	0	*
John T. McShane	2,500	2,500	0	*
John T. McShane custodian for Thomas Sheridan McShane[24]	1,200	1,200	0	*
John T. McShanecustodian for Brooke Allison Andrews[24]	1,200	1,200	0	*
John Thomas Uribe	1,000	1,000	0	*
John W. Walsh	1,000	1,000	0	*
Jon D. Sawyer	1,000	1,000	0	*
Jonathan H. Kantor	2,000	2,000	0	*
Jonathan S. Cooper	1,000	1,000	0	*
Jorge Ruiz +[1]	2,500	2,500	0	*
Joseph F. Bruno	1,500	1,500	0	*
Julie C. Kizerian	1,000	1,000	0	*
Kai Bickle Nygard	118,227	118,227	0	*
Kaja Burr	1,000	1,000	0	*
Kearney Hodings, LLC[25]	1,000	1,000	0	*
Keith A. Koch	1,000	1,000	0	*
Keith Hunt	31,057	31,057	0	*

TABLE OF CONTENTS

Selling Securityholder	Number of Shares of Common Stock Beneficially Owned	Shares Being Offered	Common Stock Beneficially Owned After Offering	
			Number of Shares Outstanding	Percent of Shares
Kelsey Kirby	1,000	1,000	0	*
Kenneth Benko	4,437	4,437	0	*
Kenneth Frank Herfert	2,000	2,000	0	*
Keri D. Winters	1,000	1,000	0	*
Kerry N. Williams	1,000	1,000	0	*
Kevin Wiser	4,437	4,437	0	*
Kim Giffoni	53,241	53,241	0	*
Kimberly Roberts Mosko	3,000	3,000	0	*
Kimberly S. Owen	2,000	2,000	0	*
Kristine M. Gregarek	1,000	1,000	0	*
L. Joy Clemenson	1,000	1,000	0	*
L. Michael Underwood	1,000	1,000	0	*
Laurie A. Cadwell	1,000	1,000	0	*
Lawrence May	985,941	985,941	0	*
Lazzeri Equity Partners 401K Plan (26)	1,000	1,000	0	*
Lazzeri Equity Partners, LLC (27)	1,000	1,000	0	*
Lazzeri Family Trust(28)	1,000	1,000	0	*
Lee Commercial Property LLC (13)	1,200	1,200	0	*
Linda S. Kantor	2,000	2,000	0	*
Lindsey Brateris	1,500	1,500	0	*
Loren Hotz	1,000	1,000	0	*
Loretta McShane	1,500	1,500	0	*
Lori Socha	1,000	1,000	0	*
Lori S. Rosenbaum	2,000	2,000	0	*
Louisana Land Acquisitions, LLC (2)	1,000	1,000	0	*
Luis Fragoso	163,368	163,368	0	*
Lynn M. Sauve	1,000	1,000	0	*
Mainstreet Investments, LLC (2)	1,000	1,000	0	*
Marcus Wood	1,000	1,000	0	*
Marcus Charuvastra +(1)	11,606	11,606	0	*
Margaret L. Dubach	2,000	2,000	0	*
Mark and Jennifer Ward	61,626	61,626	0	*
Mark Burr	1,000	1,000	0	*
Mark Strait	1,000	1,000	0	*
Mary L. Maisner	1,000	1,000	0	*
Mary Maisner FBO Mark D Maisner	1,000	1,000	0	*
Mary Rogers	1,000	1,000	0	*
Masha Paramonova +(1)	11,606	11,606	0	*
Mathis Family Partners, LTD(2)	1,000	1,000	0	*
Matthew D. Gregarek	1,000	1,000	0	*
May Amanda Olmstead	61,622	61,622	0	*
Maya Charuvastra +(1)	11,606	11,606	0	*
MDD LLC(27)	1,200	1,200	0	*
Meghan Glotfelty	1,600	1,600	0	*
Mercedes V. Rudametkin	73,946	73,946	0	*
Merritt Jones	1,000	1,000	0	*

TABLE OF CONTENTS

Selling Securityholder	Number of Shares of Common Stock Beneficially Owned	Shares Being Offered	Common Stock Beneficially Owned After Offering	
			Number of Shares Outstanding	Percent of Shares
Michael A. Cassio	2,000	2,000	0	*
Michael A. Cassio custodian for Chloe[28]	2,000	2,000	0	*
Michael A. Cassio custodian for Davis M. Cassio[28]	2,000	2,000	0	*
Michael A. Cassio custodian for Emily E. Cassio[28]	2,000	2,000	0	*
Michael A. McCarty	1,000	1,000	0	*
Michael B. Owens	2,000	2,000	0	*
Michael Faze	200,000	200,000	0	*
Michael J. Oneil	1,000	1,000	0	*
Michael L. McShane	2,500	2,500	0	*
Michael R. Kizerian	1,000	1,000	0	*
Michael V. Arbige	2,000	2,000	0	*
Michael V. Arbige custodian for Katherine Arbige[29]	2,000	2,000	0	*
Michael V. Arbige custodian for Sean M. Arbige[29]	2,000	2,000	0	*
Mike Owens Landscaping[30]	1,000	1,000	0	*
ML Partners, LLC[2]	1,000	1,000	0	*
MLD SDIRA L.L.C[31]	2,000	2,000	0	*
Mona Corbitt	5,000	5,000	0	*
Morgan Management Corp	34,673	34,673	0	*
Natalya Paramanova +[1]	11,606	11,606	0	*
Ned M. & Clara Frances Reinstein Community Property[32]	2,000	2,000	0	*
Nicholas S. Vojnovic	1,000	1,000	0	*
Nicole Charuvastra +[1]	11,606	11,606	0	*
Oaxaca Investments, LLC[9]	1,000	1,000	0	*
Pamela K. Hayes	1,000	1,000	0	*
Patrica J. Armstrong	1,000	1,000	0	*
Patricia A. Cron	1,000	1,000	0	*
Patricia A. Cron custodian for Rachel Cron [33]	1,000	1,000	0	*
Patricia Ann Alexander	1,000	1,000	0	*
Paul Kurowski	2,500	2,500	0	*
Paul Dragul	2,000	2,000	0	*
Paul Fukuda Pension and Profit Sharing Plan	30,821	30,821	0	*
Paul Giovino	1,000	1,000	0	*
Paul H. Dragul custodian for Alexis Dragul [18]	1,000	1,000	0	*
Paul H. Dragul custodian for Carson Dragul [18]	1,000	1,000	0	*
Paul H. Dragul custodian for Cheri Dragul [18]	1,000	1,000	0	*
Paul Uribe	1,000	1,000	0	*

Selling Securityholder	Number of Shares of Common Stock Beneficially Owned	Shares Being Offered	Common Stock Beneficially Owned After Offering	
			Number of Shares Outstanding	Percent of Shares
Paula S. Cassio	2,000	2,000	0	*
Paulette Dragul	1,000	1,000	0	*
PDK 2 Investment Partnership[34][35]	1,000	1,000	0	*
PDK 3 Investment Partnership[34][35]	1,000	1,000	0	*
PDK Investment Partnership[34][35]	2,000	2,000	0	*
PDMK Investment Partnership(33)[34]	2,000	2,000	0	*
Peter Masouras	1,000	1,000	0	*
Phillip A. Less	1,000	1,000	0	*
Physician Solutions Inc.	250,000	250,000	0	*
PKMD Investment Partnership[31][334]	1,000	1,000	0	*
PMK Investment Partnership[34][35]	2,000	2,000	0	*
R.A. Friedlander Family, LLC[36]	2,000	2,000	0	*
R.J. Jackson	1,000	1,000	0	*
R.V. and Mieko Bailey as Joint Tenants	3,000	3,000	0	*
Ray Douglas Alexander	1,000	1,000	0	*
Rebecca Gregarek	1,000	1,000	0	*
Renaee Hotz	1,000	1,000	0	*
Richard Parker	1,000	1,000	0	*
Richard A. & Sharon L Friedlander Tenants By The Entireties[36][37]	1,000	1,000	0	*
Richard A. Friedlander	1,000	1,000	0	*
Richard R. Ruskey	1,000	1,000	0	*
Richard Schwartz	4,437	4,437	0	*
Robert E. Easton	1,000	1,000	0	*
Robert Lazzeri	1,000	1,000	0	*
Robert M. Stanzler	2,000	2,000	0	*
Robert or Jomaire Goocher	1,000	1,000	0	*
Robert R. & Elaine Woodworth Community Property[38]	1,000	1,000	0	*
Robert R. Woodworth	1,000	1,000	0	*
Robert Sherill Joint Tenants	1,000	1,000	0	*
Roderick Uribe	1,000	1,000	0	*
Rodrigo L. Uribe	1,000	1,000	0	*
Ronald True +[1]	11,606	11,606	0	*
Ruben Granados	18,487	18,487	0	*
Ryan Brateris	1,500	1,500	0	*
Ryan Brateris custodian for Cale Brateris [39]	1,000	1,000	0	*
S Gerlach and L Gerlach TTEE Stan Gerlach, Inc. DBPP FBO Stanley Wayne Gerlach Jr. and Linda Bozarth Gerlach [40]	39,409	39,409	0	*
S.J. Schoffman	1,000	1,000	0	*
Sabrina Shell +[1]	11,606	11,606	0	*
Sanford D. Greenberg	1,500	1,500	0	*
Sarah Ruhl +[1]	11,606	11,606	0	*
Sawyer Family Partners, LTD[41]	1,000	1,000	0	*

Selling Securityholder	Number of Shares of Common Stock Beneficially Owned	Shares Being Offered	Common Stock Beneficially Owned After Offering	
			Number of Shares Outstanding	Percent of Shares
Scott A. Owen	2,000	2,000	0	*
Scott A. Owen custodian for Alexandra M. Owen[42]	1,000	1,000	0	*
Scott A. Owen custodian for Madison G. Owen[42]	1,000	1,000	0	*
Scott Kippur	1,000	1,000	0	*
Seth Shaw	49,307	49,307	0	*
Sharon H. Uribe	1,000	1,000	0	*
Sharon L. Friedlander	1,000	1,000	0	*
Shawn Gorrell	1,000	1,000	0	*
SHC LLC[43]	1,000	1,000	0	*
Sheryl A. Huttner	1,000	1,000	0	*
Shirley J. McShane	1,000	1,000	0	*
Shlomo Rechnitz	1,182,272	1,182,272	0	*
Silver Family Trust 1995	320,623	320,623	0	*
Simon Ourian	250,000	250,000	0	*
Stacy Rogers	1,000	1,000	0	*
Stephaine Shell +[1]	11,606	11,606	0	*
Stephanie & Derek Thomas	1,000	1,000	0	*
Steve B Warnecke +	150,000	150,000	0	*
Steven Rosdal	2,000	2,000	0	*
Stewart L. Mosko	3,000	3,000	0	*
Stewart L. Mosko custodian for Sophie M. Mosko[44]	1,000	1,000	0	*
Stewart L. Mosko custodian for Victoria L. Mosko[44]	1,000	1,000	0	*
Stuart Silverman	12,335	12,335	0	*
Stuart Zubrick	133,723	133,723	0	*
Suanna Singlehurst	1,000	1,000	0	*
Sue Easton	1,000	1,000	0	*
Sui Min Lee	1,200	1,200	0	*
Susan K. McShane	2,500	2,500	0	*
Susan Schoffman	1,000	1,000	0	*
Susie Chionh Rowen	133,674	133,674	0	*
Suzi Alter	14,790	14,790	0	*
Teddy D. Thompson	1,000	1,000	0	*
Terrace Capital LLC[2]	1,000	1,000	0	*
Terry A. Grossman	1,000	1,000	0	*
Terry A. Grossman custodian for Harrison Johnsom[45]	1,000	1,000	0	*
Terry A. Grossman custodian for Lucetec Johnson[45]	1,000	1,000	0	*
Terry A. Grossman custodian for Samuel Grossman[45]	1,000	1,000	0	*
Thomas Allen Forti	5,000	5,000	0	*

TABLE OF CONTENTS

Selling Securityholder	Number of Shares of Common Stock Beneficially Owned	Shares Being Offered	Common Stock Beneficially Owned After Offering	
			Number of Shares Outstanding	Percent of Shares
Thomas Allen Forti custodian for Michael David Forti[46]	1,500	1,500	0	*
Thomas J. McShane	1,000	1,000	0	*
Thomas L. Rosenbaum	2,000	2,000	0	*
Tim Brasel	500,000	500,000	0	*
TMF Japan	30,821	30,821	0	*
Todd A. Williams	1,500	1,500	0	*
Tri-M Building Corp.[47]	1,500	1,500	0	*
Truman C. Leuthauser	5,000	5,000	0	*
Underwood Family Partners, LTD[48]	1,000	1,000	0	*
Valere Mathis	1,000	1,000	0	*
Virginia A. Buczek	1,000	1,000	0	*
Virginia Johnson +[1]	2,500	2,500	0	*
Walter A. Strutz	1,000	1,000	0	*
Washington Street Partners, Inc.[49]	1,000	1,000	0	*
William Ooms	1,000	1,000	0	*
William Charuvastra +[1]	11,606	11,606	0	*
William Douglas Lowe	2,000	2,000	0	*
Yvonne J. Goldman	1,500	1,500	0	*

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* Less than 1%

\+ Except as indicated by +, no selling securityholder is an officer, director, affiliate or 5% securityholder.

[] Except as indicated by [], no selling securityholder is a broker-dealer or an affiliate of a broker-dealer.

1 The Elizabeth Charuvastra and William Shell Family Trust Dated July 27, 2006 and Amended September 29, 2006 holds voting control over such securities. William E. Shell, MD and Elizabeth Charuvastra, co-Trustees, may be deemed to have voting control over such securities.

2 Earnest Mathis Jr. has voting and investment control over such securities.

3 John M. Lepo has voting and investment control over such securities.

4 Truman C. Leuthauser has voting and investment control over such securities.

5 Dennis D. Postma has voting and investment control over such securities.

6 Deborah Lowe has voting and investment control over such securities.

7 Debra R. Redmond Leuthauser has voting and investment control over such securities.

8 Douglas Harrison has voting and investment control over such securities.

9 Gordon Burr has voting and investment control over such securities.

10 Elizabeth Zanetto has voting and investment control over such securities.

11 Farzin Ferdosi has voting and investment control over such securities.

12 Frank Kramer has voting and investment control over such securities.

13 George F. Lee has voting and investment control over such securities.

14 Gerald & Lynnette Hannahs have voting and investment control over such securities.

15 Kim Giffoni and Olena B. Giffoni, co-Trustees, have voting and investment control over such securities.

16 Gary J. Mcadam has voting and investment control over such securities.

17 Thomas Howard has voting and investment control over such securities.

18 Paul Dragul has voting and investment control over such securities.

19 Irene L. Gibbs has voting and investment control over such securities.

20 James R. Sjoerdsma has voting and investment control over such securities.

21 Jennifer Uribe has voting and investment control over such securities.

22 John C. & Meghan Glotfelty have voting and investment control over such securities.

23 John Morris has voting and investment control over such securities.

24 John T McShane has voting and investment control over such securities.

25 Charles Kirby has voting and investment control over such securities.

26 Robert Lazzeri has voting and investment control over such securities.

27 Robert Sanders has voting and investment control over such securities.

28 Michael A. Cassio has voting and investment control over such securities.

29 Michael V. Arbige has voting and investment control over such securities.

30 Michael B. Owens has voting and investment control over such securities.

31 Margaret L. Dubach has voting and investment control over such securities.

32 Ned M. & Clara Frances Reinstein have voting and investment control over such securities.

33 Patricia A. Cron has voting and investment control over such securities.

34 Paul Kurowski has voting and investment control over such securities.

35 Diana T Kurowski has voting and investment control over such securities.

36 Richard A. Friedlander has voting and investment control over such securities.

37 Sharon L. Friedlander has voting and investment control over such securities.

38 Robert R. & Elaine Woodworth have voting and investment control over such securities.

39 Ryan Brateris has voting and investment control over such securities.

40 Stan Gerlach has voting and investment control over such securities.

41 Jon D. Sawyer has voting and investment control over such securities.

42 Scott A. Owen has voting and investment control over such securities.

43 Robert Stevens has voting and investment control over such securities.

44 Stewart L. Mosko has voting and investment control over such securities.

45 Terry A. Grossman has voting and investment control over such securities.

46 Thomas Allen Forti has voting and investment control over such securities.

47 Joseph F. Bruno has voting and investment control over such securities.

48 L. Michael Underwood has voting and investment control over such securities.

49 John C. Lee has voting and investment control over such securities.

Each of the selling securityholders that is an affiliate of a broker-dealer has represented to us that it purchased the shares offered by this prospectus in the ordinary course of business and, at the time of purchase of those shares, did not have any agreements, understandings or other plans, directly or indirectly, with any person to distribute those shares.

[Alternate Page for Selling Securityholder Prospectus]

PLAN OF DISTRIBUTION

The selling securityholders, which as used herein includes donees, pledgees, transferees or other successors-in-interest selling shares of common stock or interests in shares of common stock received after the date of this prospectus from a selling securityholder as a gift, pledge, partnership distribution or other transfer, may, from time to time, sell, transfer or otherwise dispose of any or all of their shares of common stock or interests in shares of common stock on any stock exchange, market or trading facility on which the shares are traded or in private transactions. These dispositions may be at fixed prices, at prevailing market prices at the time of sale, at prices related to the prevailing market price, at varying prices determined at the time of sale, or at negotiated prices.

The selling securityholders may use any one or more of the following methods when disposing of shares or interests therein:

- ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- block trades in which the broker-dealer will attempt to sell the shares as agent, but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- an exchange distribution in accordance with the rules of the applicable exchange;
- privately negotiated transactions;
- short sales;
- through the writing or settlement of options or other hedging transactions, whether through an options exchange or otherwise;
- broker-dealers may agree with the selling securityholders to sell a specified number of such shares at a stipulated price per share;
- a combination of any such methods of sale; and
- any other method permitted pursuant to applicable law.

The selling securityholders may, from time to time, pledge or grant a security interest in some or all of the shares of common stock owned by them and, if they default in the performance of their secured obligations, the pledgees or secured parties may offer and sell the shares of common stock, from time to time, under this prospectus, or under an amendment to this prospectus under Rule 424(b)(3) or other applicable provision of the Securities Act amending the list of selling securityholders to include the pledgee, transferee or other successors in interest as selling securityholders under this prospectus. The selling securityholders also may transfer the shares of common stock in other circumstances, in which case the transferees, pledgees or other successors in interest will be the selling beneficial owners for purposes of this prospectus; provided, however, that prior to any such transfer the following information (or such other information as may be required by the federal securities laws from time to time) with respect to each such selling beneficial owner must be added to the prospectus by way of a prospectus supplement or post-effective amendment, as appropriate: (1) the name of the selling beneficial owner; (2) any material relationship the selling beneficial owner has had within the past three years with us or any of our predecessors or affiliates; (3) the amount of securities of the class owned by such security beneficial owner before the offering; (4) the amount to be offered for the security beneficial owner's account; and (5) the amount and (if one percent or more) the percentage of the class to be owned by such security beneficial owner after the offering is complete.

In connection with the sale of our common stock or interests therein, the selling securityholders may enter into hedging transactions with broker-dealers or other financial institutions, which may in turn engage in short sales of the common stock in the course of hedging the positions they assume. The selling securityholders may also sell shares of our common stock short and deliver these securities to close out their short positions, or loan or pledge the common stock to broker-dealers that in turn may sell these securities. The selling securityholders may also enter into option or other transactions with broker-dealers or other

financial institutions or the creation of one or more derivative securities which require the delivery to such broker-dealer or other financial institution of shares offered by this prospectus, which shares such broker-dealer or other financial institution may resell pursuant to this prospectus (as supplemented or amended to reflect such transaction).

The aggregate proceeds to the selling securityholders from the sale of the common stock offered by them will be the purchase price of the common stock less discounts or commissions, if any. Each of the selling securityholders reserves the right to accept and, together with their agents from time to time, to reject, in whole or in part, any proposed purchase of common stock to be made directly or through agents. We will not receive any of the proceeds from this offering.

The selling securityholders also may resell all or a portion of the shares in open market transactions in reliance upon Rule 144 under the Securities Act of 1933, provided that they meet the criteria and conform to the requirements of that rule.

The selling securityholders and any underwriters, broker-dealers or agents that participate in the sale of the common stock or interests therein may be "underwriters" within the meaning of Section 2(11) of the Securities Act. Any discounts, commissions, concessions or profit they earn on any resale of the shares may be underwriting discounts and commissions under the Securities Act. Selling securityholders who are "underwriters" within the meaning of Section 2(11) of the Securities Act will be subject to the prospectus delivery requirements of the Securities Act.

To the extent required, the shares of our common stock to be sold, the names of the selling securityholders, the respective purchase prices and public offering prices, the names of any agents, dealer or underwriter, any applicable commissions or discounts with respect to a particular offer will be set forth in an accompanying prospectus supplement or, if appropriate, a post-effective amendment to the registration statement that includes this prospectus.

In order to comply with the securities laws of some states, if applicable, the common stock may be sold in these jurisdictions only through registered or licensed brokers or dealers. In addition, in some states the common stock may not be sold unless it has been registered or qualified for sale or an exemption from registration or qualification requirements is available and is complied with.

We have advised the selling securityholders that the anti-manipulation rules of Regulation M under the Exchange Act may apply to sales of shares in the market and to the activities of the selling securityholders and their affiliates. In addition, we will make copies of this prospectus (as it may be supplemented or amended from time to time) available to the selling securityholders for the purpose of satisfying the prospectus delivery requirements of the Securities Act. The selling securityholders may indemnify any broker-dealer that participates in transactions involving the sale of the shares against certain liabilities, including liabilities arising under the Securities Act.

We have agreed to indemnify the selling securityholders against liabilities, including liabilities under the Securities Act and state securities laws, relating to the registration of the shares offered by this prospectus.

We have agreed with the selling securityholders to keep the registration statement of which this prospectus constitutes a part effective until the earlier of (1) such time as all of the shares covered by this prospectus have been disposed of pursuant to and in accordance with the registration statement or (2) the date on which the shares may be sold pursuant to Rule 144 of the Securities Act.

To our knowledge, no selling securityholder is a broker-dealer or an affiliate of a broker-dealer.

[Alternate Page for Selling Securityholder Prospectus]

LEGAL MATTERS

Ellenoff Grossman & Schole LLP, 150 East 42nd Street, New York, New York 10017, will pass upon the validity of the securities offered in this prospectus.

EXPERTS

The consolidated financial statements of Targeted Medical Pharma, Inc. as of December 31, 2009 and 2008 and for the nine months ended September 30, 2010 have been included herein in reliance upon the report of EFP Rotenberg LLP, an independent member of the BDO Seidman alliance, an independent registered public accounting firm, appearing elsewhere herein, and upon the authority of said firm as experts in accounting and auditing.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

We have filed with the Securities and Exchange Commission a registration statement on Form S-1 under the Securities Act with respect to the shares of common stock offered by this prospectus. This prospectus, which is part of the registration statement filed with the SEC, does not contain all of the information set forth in the registration statement or the exhibits filed therewith. For further information with respect to us and the shares of common stock offered by this prospectus, please see the registration statement and exhibits filed with the registration statement.

You may also read and copy any materials we have filed with the SEC at the SEC's public reference room, located at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. In addition, our SEC filings, including reports, proxy statements and other information regarding issuers that file electronically with the SEC, are also available to the public at no cost from the SEC's website at http://www.sec.gov. You also may request a copy of the registration statement and these filings by writing us at 18 East 16th Street, 7th Floor, New York, New York 10003 or calling us at (646) 448-8210.

We are subject to the information and periodic reporting requirements of the Exchange Act and, accordingly we file annual reports containing financial statements audited by an independent public accounting firm, quarterly reports containing unaudited financial data, current reports, proxy statements and other information with the SEC. You will be able to inspect and copy such periodic reports, proxy statements and other information at the SEC's public reference room and the SEC's Web site referred to above.

TABLE OF CONTENTS

[Alternate Page for Selling Securityholder Prospectus]

Until , 2011, all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

TARGETED MEDICAL PHARMA, INC.

27,933,576 Shares

Common Stock

, 2011

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution.

The following table sets forth the costs and expenses, other than underwriting discounts and commissions, if any, payable by us relating to the sale of the common stock being registered. All amounts are estimates except the SEC registration fee.

SEC registration fee	$ 13,669.00
FINRA fee	$ 3,500.00
NASDAQ Capital Market fee	$ 94,000.00
Printing and engraving expenses	$ 45,000.00
Legal fees and expenses	—
Accounting fees and expenses	—
Miscellaneous	$ 54,831.00
Total	$ 211,000.00

Item 14. Indemnification of Directors and Officers.

Our amended and restated certificate of incorporation provides that no director of the company will be personally liable to the company or our stockholders for monetary damages for breach of fiduciary duty as a director.

In, addition, the employment agreement for the TMP Insiders and Mr. Warnecke contain an indemnification provision wherein we promise to defend, indemnify, and hold the employee harmless to the fullest extent permitted by law against any and all liabilities incurred by the employee in connection with the executive officer's good faith performance of such individual's employment by us.

The amended and restated certificate of incorporation of the Company provides that all directors, officers, employees and agents of the registrant shall be entitled to be indemnified by the Company to the fullest extent permitted by Section 145 of the Delaware General Corporation Law ("DGCL").

Article Tenth of our certificate of incorporation provides:

"To the fullest extent permitted by applicable law, the Corporation is authorized to provide indemnification of (and advancement of expenses to) directors, officers and agents of the Corporation (and any other persons to which General Corporation Law permits the Corporation to provide indemnification) through Bylaw provisions, agreements with such agents or other persons, vote of stockholders or disinterested directors or otherwise, in excess of the indemnification and advancement otherwise permitted by Section 145 of the General Corporation Law.

Any amendment, repeal or modification of the foregoing provisions of this Article Tenth shall not adversely affect any right or protection of any director, officer or other agent of the Corporation existing at the time of, or increase the liability of any director of the Corporation with respect to any acts or omissions of such director, officer or other agent occurring prior to, such amendment, repeal or modification."

Pursuant to the Company's bylaws, the directors and officers of the Company shall, to the fullest extent permitted by the DGCL, also have the right to receive from us an advancement of expenses incurred in defending any proceeding in advance of its final disposition. To the extent required under the DGCL, an advancement of expenses incurred by a director or officer in his or her capacity as a director or officer (and not in any other capacity in which service was or is rendered by such individual, including, without limitation, service to an employee benefit plan) shall be made only upon delivery to us of an undertaking, by or on behalf of such director or officer, to repay all amounts so advanced if it shall ultimately be determined that such director or officer is not entitled to be indemnified for such expenses. We are not required to provide indemnification or advance expenses in connection with (i) any proceeding initiated by a director or officer of the Company unless such proceeding was authorized by the Board of Directors or otherwise required by law;

(ii) any proceeding providing for disgorgement of profits pursuant to Section 16(b) of the Securities Exchange Act of 1934, as amended; (iii) and for amounts for which payment is actually made to or on behalf of such person under any statute, insurance policy or indemnity provisions or law; or (iv) any prohibition by applicable law.

Pursuant to the Company's certificate of incorporation, the Company may also maintain a directors' and officers' insurance policy which insures the Company and any of its directors, officers, employees, agents or other entities, against expense, liability or loss asserted against such persons in such capacity whether or not the Company would have the power to indemnify such person under the DGCL.

Item 15. Recent Sales of Unregistered Securities.

Issuances of Capital Stock

Pursuant to the Agreement and Plan of Reorganization, dated January 31, 2011, by and among AFH Acquisition III, Inc. ("AFH"), TMP Merger Sub, Inc., AFH Merger Sub, Inc., AFH Holding and Advisory, LLC, Targeted Medical Pharma, Inc. ("Old TMP"), William E. Shell, MD, Elizabeth Charuvstra and Kim Giffoni, on January 31, 2011, AFH issued an aggregate of 18,308,576 shares of its common stock to the stockholders of Old TMP in exchange for shares representing 100% of the issued and outstanding common stock of Old TMP. In addition, AFH issued an aggregate of 566,424 options to purchase common stock in exchange for options to purchase shares of Old TMP. The shares of common stock of AFH issued to the former stockholders of Old TMP were not registered under the Securities Act. These securities qualified for exemption under Rule 506 promulgated under Section 4(2) of the Securities Act since the issuance of securities by the Company did not involve a "public offering." The issuance was not a public offering based upon the following factors: (i) the issuance of the securities was an isolated private transaction; (ii) a limited number of securities were issued to a limited number of offerees; (iii) there was no public solicitation; (iv) each offeree was an "accredited investor," (v) the investment intent of the offerees; and (vi) the restriction on transferability of the securities issued.

On January 19, 2011, we completed the private placement of 900,000 shares of common stock at a price of $1.00 per share, resulting in total gross proceeds of $900,000. There were no commissions paid in connection with the offering. In connection with this offering, we relied on the exemption provided by Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act"), and Rule 506 of Regulation D promulgated under the Securities Act. All investors were "accredited investors," as such term is defined in Rule 501 of Regulation D, and all investors completed a subscription agreement and an accredited investor questionnaire.

Certain Grants and Exercises of Stock Options

The sale and issuance of the securities described below were deemed to be exempt from registration under the Securities Act in reliance on Section 4(2) of the Securities Act, as transactions by an issuer not involving a public offering.

Pursuant to our Targeted Medical Pharma, Inc. 2011 Stock Incentive Plan and certain stand-alone stock option agreements, we have issued options to purchase an aggregate of 1,066,424 shares of common stock. Of these options, as of September 30, 2010:

- no options to purchase shares of common stock have been exercised; and
- options to purchase a total of 1,066,424 shares of common stock are currently outstanding at prices ranging from $0.77 to $3.38 per share.

Item 16. Exhibits and Financial Statements.

The agreements included as exhibits to this registration statement contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the parties to the applicable agreement and (i) should not be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate; (ii) have been qualified by disclosures that ere made to the other party in connection with the negotiation of the applicable agreement; (iii) may apply contract standards of "materiality" that are different from "materiality" under the applicable securities laws; and (iv) were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments. Accordingly, these representations and warranties may not describe the actual state of affairs of the date they were made or at any other time. The registrant acknowledges that, notwithstanding the inclusion of the foregoing cautionary language, it is responsible for considering whether additional specific disclosure of material information regarding material contractual provisions are required to make the statements in this registration statement not misleading. Additional information about the registrant may be found elsewhere in this registration statement and in the registrant's other public filings, which are available without charge through the SEC's website at *www.sec.gov*.

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21#	List of Subsidiaries
23.1	Consent of independent registered public accounting firm
23.2#	Consent of Ellenoff Grossman & Schole LLP (included in Exhibit 5.1)*
24.1	Power of Attorney (included on signature page)
99.1#	Audit Committee Charter
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99.3#	Nominating Committee Charter

To be filed by amendment.

+ Incorporated by reference to the Current Report on Form 8-K (Dated: January 31, 2011) filed by the Registrant on February 3, 2011.

* The parties to the Merger Agreement have made to each other representations, warranties and covenants, which are qualified by information in confidential disclosure schedules delivered together with the Merger Agreement. While the Registrant does not believe that these schedules contain information that the securities laws require it to publicly disclose and therefore are not filed herewith, other than information that has already been so disclosed, the disclosure schedules do contain information that modifies, qualifies and creates exceptions to the representations, warranties and covenants set forth in the Merger Agreement. Accordingly, the representations, warranties and covenants should not be relied on as characterizations of the actual state of facts, since they may be modified by the disclosure schedules.

|Ax Certain portions have been omitted pursuant to a confidential treatment request. Omitted information has been filed separately with the SEC.

Item 17. Undertakings.

(A) The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increases or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement;

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) For the purpose of determining liability under the Securities Act of 1933 to any purchaser, if the registrant is subject to Rule 430C, each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration statements relying on Rule 430B or other than prospectuses filed in reliance on Rule 430A, shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.

(B) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question of whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

TABLE OF CONTENTS

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized in the City of Los Angeles, State of California, on February 14, 2011.

TARGETED MEDICAL PHARMA, INC.

By: /s/ William E. Shell
Name: William E. Shell, M.D.
Title: Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints William E. Shell, MD his true and lawful attorney-in-fact, with full power of substitution and resubstitution for him and in his name, place and stead, in any and all capacities to sign any and all amendments including post-effective amendments to this registration statement, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the SEC, hereby ratifying and confirming all that said attorney-in-fact or his substitute, each acting alone, may lawfully do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Act, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Name	Position	Date
/s/ William E. Shell William E. Shell, MD	Chief Executive Officer, Chief Scientific Officer and Director *(principal executive officer)*	February 14, 2011
/s/ Elizabeth Charuvastra Elizabeth Charuvastra	Vice President of Regulatory Affairs and Director	February 14, 2011
/s/ Kim Giffoni Kim Giffoni	Executive Vice President of Foreign Sales and Investor Relations and Director	February 14, 2011
/s/ Steve B. Warnecke Steve B. Warnecke	Chief Financial Officer *(principal financial officer and) principal accounting officer*	February 14, 2011
/s/ Amir Blachman Amir Blachman	Vice President of Strategy and Operations	February 14, 2011
/s/ Maurice DeWald Maurice DeWald	Director	February 14, 2011
/s/ Arthur R. Nemiroff Arthur R. Nemiroff	Director	February 14, 2011
/s/ Donald J. Webster Donald J. Webster	Director	February 14, 2011
/s/ John H. Bluher John H. Bluher	Director	February 14, 2011

TABLE OF CONTENTS

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Exhibit 10.27

EMPLOYMENT AGREEMENT

This employment agreement is effective as of January 31, 2011 between TARGETED MEDICAL PHARMA ("Employer") and Amir Blachman ("Executive").

1. Employer shall employ Executive as Vice President of Strategy and Operations or in such other capacity or capacities Employer's board may from time to time prescribe.

2. The Executive shall serve at the discretion of the Board of Directors and, upon mutual agreement, may be assigned other titles and duties as long as the financial terms of this Agreement are not altered.

3. Executive shall have the right to vendor other services for compensation or engage in other business activities as long as it does not detract from Executive's performance herein.

4. During his employment, Executive shall devote such time, interest, and effort to the performance of this agreement as may be fairly and reasonable necessary.

5. During the employment term, Executive shall not, directly or indirectly, whether as a partner, employee, creditor, shareholder, or otherwise, promote, participate, or engage in any activity or other business competitive with Employer's business.

6. In addition, Executive, while employed, shall not take any action without Employer's prior written consent to establish, form, or become employed by a competing business on termination of employment by Employer.

7. If, during the term of this agreement, Executive shall not be vested by Employer with the responsibilities of acting as its Vice President of Strategy and Operations by lawful Board Action, the Board will have the authority to designate other titles and duties of the Executive by mutual agreement. If mutual agreement between the Board and the Executive are not achieved, Executive shall be employed as an advisor and consultant to Employer so that Employer may benefit from Executive's experience. It is expressly agreed that Executive's services as an advisor and consultant will be required at such times and places as will result in the least inconvenience to Executive, having in mind his other business commitments during that period which may obligate him to perform his services under such other commitments before performing the advisory services under this agreement. While Executive is employed as an advisor and consultant by Employer, Employer shall pay Executive all compensation benefits provided for in this agreement. During the course for his employment as an advisor and consultant, Executive shall not compete, directly or indirectly, with Employer.

8. Subject to earlier termination as provided in this agreement, Executive shall be employed for a term beginning January 31, 2011 and ending December 31, 2013. Upon signature, all of the terms of this agreement are effective immediately and this agreement herein supersedes any prior employment agreements.

9. Unless the parties agree otherwise in writing, during the employment term Executive shall perform the services he is required to perform under this agreement at Employer's offices or at Executive's home, provided, however, that Employer may from time to time require Executive to travel temporarily to other locations on Employer's business.

10. Employer shall pay a base salary to Executive at the rate of $140,000 per year ("Base Salary"), payable in bi-weekly installments.

    i. Bonus: For the period of January 31, 2011 to December 31, 2013, Executive shall be entitled to receive cash bonuses at the Company's discretion.

    ii. Equity Compensation: Executive received options to purchase 7,395 (adjusted for the Reorganization) shares of common stock following the 90th day of the effectiveness of his employment with TMP. Such options fully vested on the 91st day after the effective date of Executive's employment, which was May 16, 2010. In addition, pursuant to Executive's July 28, 2010 promotion letter, Executive received additional options to purchase 73,945 shares (adjusted for the Reorganization) common stock, which options shall vest pro rata on a monthly basis over a two year period.

    iii. Executive's options to purchase stock shall be exercisable by Executive at any time during the period of employment or within three years of termination of employment or, upon death of the Executive, by his estate, within six months of after date of death.

    iv. The Basic Salary shall be reviewed by the Compensation Committee of the Company's Board of Directors on an annual basis and may be revised upon mutual agreement between Company and Executive.

11. Indemnification. The Company hereby agrees to indemnify the Executive, hold harmless and provide the Executive with advancement of expenses to the fullest extent permitted by law and under the by-laws of the Company against and in respect to any and all actions, suits, proceedings, claims, demands, judgments, costs, expenses (including reasonable attorney's fees), losses, and damages resulting from the Executive's good faith performance of his duties and obligations with the Company.

D&O Insurance. The Company shall cover the Executive under directors and officers liability insurance during and, while potential liability exists, after the Term in the same amount and to the same extent as the Company covers its other directors and officers.

12. EXPENSES During the Employment Period, the Employer shall reimburse the Executive for all reasonable business expenses in accordance with applicable policies and procedures then in force, including, without limitation, travel, lodging, and other expenses incurred by him.

13. OTHER BENEFITS During the Employment Period, the Executive shall be eligible to participate at no cost or expenses to him in welfare planes and programs, group life insurance plan, medical and dental insurance plan, and accident and disability insurance plan ("Benefit Plans") applicable generally to executives and/or senior executives of the Employer.

14. EXECUTIVE COMPENSATION UPON TERMINATION.

a. DISABILITY PERIOD. During any period during the Employment Period that the Executive fails to perform his duties hereunder as a result of incapacity due to physical or mental illness ("Disability Period"), the Executive shall continue to
   (i) receive his full Base Salary and
   (ii) participate in the Benefit Plans.

b. DEATH. If the Executive's employment hereunder is terminated as a result of death then:
   (i) the Company shall pay the Executive's estate or designated beneficiary, as soon a practicable after the Date of Termination, any Base Salary installments due in the month of death and for a period of 6 months thereafter and any reimbursable expenses, accrued or owing the Executive hereunder as of the Date of Termination.

c. DISABILITY. If the Executive's employment hereunder is terminated as a result of Disability, then:
   (i) the Company shall pay the Executive, as soon as practicable after the Date of Termination, any base salary for 6 months and any reimbursable expenses, accrued or owing the Executive hereunder for services as of the Date of Termination

d. EMPLOYER'S TERMINATION FOR CAUSE OR BY EXECUTIVE OTHER THAN FOR CAUSE. If the Executive employment hereunder is terminated by the Employer for Cause or by the Executive, or terminates other than for Cause, then:

   (i) the Employer shall pay the Executive, after the Date of Termination, any base Salary and any reimbursable expenses accrued or owing the Executive hereunder for services as of the Date of Termination. For the purpose of this agreement a change of control in company shall not be deemed employers termination for Cause in reference to the Executive.

e. EMPLOYER'S TERMINATION WITHOUT CAUSE. If the Executive employment hereunder is terminated by the Employer without cause, then:

(i) the Company shall pay the Executive, as soon as practicable after the Date of Termination, any base salary for 6 months and any reimbursable expenses, accrued or owing the Executive hereunder for services as of the Date of Termination.

15. BENEFITS. In addition to the Base Salary, Executive shall receive the following benefits during the period for which Executive is employed by Employer. Executive shall be entitled to;

(i) Subject to Company policy, a vacation each year of four weeks, which may accrue from year to year but not to exceed twelve (12) weeks total, and

(ii) Ten additional holidays customarily observed by companies similar to Employer, and during such time, Executive's compensation shall be paid in full; provided, however, that is Executive does not take all or a portion of the vacation time to which he is entitled hereunder, Employer shall compensate Executive therefore on such terms as Employer and Executive may mutually agree.

(iii) Executive shall be entitled to participate in all pension, profit sharing and similar plans of Employer, on no less favorable terms and conditions as are available to the executives of Employer.

16. EXECUTIVE SUCCESSORS. This Agreement shall not be assignable by the Executive. This Agreement and all rights of the Executive hereunder shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributes, devisees and legatees. Upon the Executive's death, all amounts to which he is entitled hereunder, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to the Executive's devisee, legatee, or other designees or, if there be no such designee, to the Executive's estate.

17. EMPLOYER TERMINATION OF EXECUTIVE FOR CAUSE. The Employer may terminate the Executive's employment hereunder for Cause. For purposes of the Agreement, the Employer shall have 'Cause' to terminate the Executive's employment hereunder:

(i) upon the Executive's conviction for the commission of a felony (or a plea of nolo contender thereto);
(ii) any act or omission involving theft or fraud with respect to the Company, its subsidiaries, customers or suppliers;
(iii) reporting to work under the influence of alcohol or illegal drugs or the use of illegal drugs causing causing public disgrace to the Company;
(iv) willful misconduct or gross negligence with respect to the Company; and
(v) failure by the Executive substantially to perform his duties hereunder (other than any such failure resulting from the Executives incapacity due to Disability).

For purposes hereof, no act or failure to act by the Executive shall be considered 'willful' unless done or omitted to be done by him not in good faith or without reasonable belief that his action or omission was in the best interest of the Employer or contrary to a formal resolution of the Board or Manager. Cause shall not exist unless and until there shall have been delivered to the Executive a copy of a resolution, duly adopted by the Affirmative vote of not less than two thirds of the entire membership of the Board at a meeting of the Board held for the purpose thereof and an opportunity for him, together with his counsel, to be heard before the Board at such meeting, finding that in the good faith option of the Board, the Executive was guilty of conduct set forth above in clause (ii) of this Paragraph and specifying the particulars thereof in detail. The Date of Termination shall be the date specified in the Notice of Termination; provided, however, that, in the case of a termination for Cause under (ii) above, the Date of Termination shall not be earlier tan 30 days after delivery of the Notice of Termination. Anything herein to the contrary notwithstanding, if, following a termination of the Executive's employment b the Employer for Cause based upon the conviction of the Executive for a felony, such conviction is overturned in a final determination on appeal, the Executive shall be entitled to the payments and the economic equivalent of the benefits the Executive would have received if his employment had been terminated by the Employer without Cause.

18. EXECUTIVE TERMINATION FOR CAUSE. The Executive may terminate his employment hereunder for Cause, provided that the Executive shall have delivered a Notice of Termination (as described herein) within ninety (90) days after the occurrence of the event of Cause giving rise to such termination. For the purposes of this Agreement, 'Cause' shall mean the occurrence of one for more of the following circumstances, without the Executive's express written consent, which are not remedied by the Employer within 30 days of receipt of the Executive's Notice of Termination:

(i) an assignment to the Executive of any duties materially inconsistent with his positions, duties, responsibilities and status with the Employer or any materials limitation of the powers of the Executive not consistent with the powers of the Executive contemplated by Paragraph 2 hereof;

(ii) any removal of the Executive from, or any failure to re-elect the Executive to, the positions specified in the Agreement; or a reduction in the Executives Base Salary from time to time.

(iii) the failure of the Company to continue in effect any Benefit Plan that was in effect on the date hereof or provide the Executive with Equivalent benefits;

(iv) any other material breach by the Company of this Agreement; or

(v) a Change in Control.

In the event of a termination for Cause, the Date of Termination shall be the date specified in the Notice of Termination, which shall be no more than 30 days after the Notice of Termination.

19. CONFIDENTIAL INFORMATION AND TRADE SECRETS.

(i) Executive recognizes that Executive's position with the Company require Considerable responsibility and trust, and, in reliance on Executive's loyalty, the Company may entrust Executive with highly sensitive confidential, restricted and proprietary information Involving Trade Secrets and Confidential Information.

(ii) For purposes of this Agreement, a "Trade Secret" is any scientific or technical information, design, process, procedure, formula or improvement that is valuable and not generally known to competitors of the Company. "Confidential Information" is any data or information, other than trade Secrets, that is important, competitively sensitive, and not generally know by the public, including, but not limited to, the Company's business plans, business prospects, training manuals, product development plans, bidding and pricing procedures, market strategies, internal performance statistics, financial data, confidential personnel information concerning Executives of the Company, supplier data, operational or administrative plans, policy manuals, and terms and conditions of contracts and agreements. The term "Trade Secret" and "Confidential Information" shall not apply to information which is (i) already in Executive's possession (unless such information was used in connection with formulating the Company's business plans, obtained by Executive from the Company or was obtained by Executive in the course of Executive's employment by the Company), or (ii) required to be disclosed by any applicable law.

(iii) Except as required to perform Executive's duties hereunder, executive will not use or disclose any Trade Secrets or Confidential Information of the Company during employment, at any time after termination of employment and prior to such time as they cease to be Trade Secrets or Confidential Information.

(iv) Upon the request of the Company and, in any event, upon the termination of employment hereunder, Executive will surrender to the company all memoranda, notes, records, plans, manuals or other documents pertaining to the Company's business or Executive's employment (including all copies thereof). Executive will also leave with the Company all materials involving Trade Secrets or Confidential Information of the company. All such information and materials, whether or not made or developed by Executive, shall be the sole and exclusive property of the Company, and Executive hereby assigns to the company all of Executive's right, title and interesting and to any and all of such information and materials.

20. COVENANT NOT TO COMPETE.

Executive herby covenants and agrees that for a period commencing on the date hereof and ending twelve (12) months after ceasing employment with the Employer for any reason, he shall not:

(v) Compete in any way with the employer without the Employer's prior written consent.

(vi) Interfere with the relationship of the Employer and any executive, agent or representative.

(vii) Divert, or attempt to cause the diversion from the employer, any business with which the Employer has been actively engaged in during any part of the past two (2) year period preceding the Termination Date, nor interfere with relationships of the Employer with policyholders, dealers, distributors, marketers, sources of supply, or customers.

Specific Enforcement. Executive specifically acknowledges and agrees that the restrictions set forth herein are reasonable and necessary to protect the legitimate interest of the Company and that the Employer would not have entered into this Agreement in the absence of such restrictions. Executive further acknowledges and agrees that any violation of the provisions hereof will result in irreparable injury to the Employer, that the remedy at law for any violation of threatened violation will be inadequate and that in the event of any such breach, the Employer, in addition to any other remedies or damages available to I at law or in equity, shall be entitled to temporary injunctive relief before trial from any court of competent jurisdiction as a matter of course, and to permanent injunctive relief without the necessity of proving actual damages.

21. NOTICE OR TERMINATION. Any termination of the Executive's employment hereunder by the employer or by the Executive shall be communicated by written Notice of Termination to the other party hereto in accordance with this Agreement. For purposes of this Agreement, a "Notice of Termination" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated. If any dispute concerning a Notice of Termination of the Executive's employment under this Paragraph results in a determination that proper basis for such termination did not exist under such Paragraph, the Executive's employment under this Agreement shall be treated, with respect to a Notice of Termination pursuant to this Paragraph, as having been terminated pursuant to this Paragraph or, with respect to a Notice or Termination pursuant to this Paragraph as having not been terminated.

22. ARBITRATION. Any controversy or claim arising out of or relating to this agreement, or breach of this agreement, shall be settled by arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association, and judgment on the award rendered by the arbitrators may be entered in any court having jurisdiction. There shall be three arbitrators, one to be chosen directly by each party at will, and the third arbitrator to be selected by the two arbitrators so chosen. Each party shall pay the fees of the arbitrator he or she selects and of his or her own attorneys, and the expenses of his or her witnesses and all other expenses connected with presenting his or her case. Other cost of the arbitration, including the cost of any record or transcripts of the arbitration, administrative fees, the fee of the third arbitrator, and all other fees and costs, shall be borne equally by the parties.

23. OWNERSHIP AND OTHER RIGHTS IN CONNECTION WITH INVENTIONS.

(i) Employer and Executive herby agree that any Inventions made, developed, perfected, devised, conceived or reduced to practice by Executive during the term of this agreement are the sole property of Executive except those Inventions which are contemplated and developed on behalf of the company, or pharmaceutical as defined by the Food and Drug Administration, medical foods as defined by the Food and Drug Administration or a dietary supplement in accordance with the provisions of the so-called Dietary Supplement Health and Education Act of 1994, of which are not covered by the Dietary Supplement Health and Education Act of 1994 and are to be ingested, inhaled, or applied to the skin as a cream or other topical, however specifically excluding inventions which to be injected into the body of an animal, including a human being, which shall be the sole property of Employer, subject only to the rights granted Executive by Employer in accordance with this Agreement.

(ii) Any patent application filed by Executive for Inventions which are the property of Employer pursuant to this paragraph shall be filed in the name of Executive, and not later than the date on which the said patent application is approved and letter patent are issued, Executive shall cause an assignment of the said patent to be filed with the United States patent and Trademark Office showing an unconditional assignment of the said patent to Employer.

24. INDEMNIFICATION OF EXECUTIVE BY EMPLOYER.

Employer shall indemnify and hold Executive harmless from and against any and all liabilities, losses, damages, costs and expenses including, but not limited to, court costs and attorneys' fee which Executive may incur as a result of any contention, liability, obligation, claim or cause of action (including, but not limited to, claims for indemnity or contribution) brought against Executive seeking damages or injunctive relief as a result of any set of Executive performed within the scope of his employment hereunder. Employer covenants that:

(i) it will advance to Executive all reasonable sums of money which executive shall become liable to pay by reason of any of the foregoing, including but not limited to, such sums as may be required for bonds and legal fees and expenses,
(ii) it will make such payment to Executive promptly as such fees and expenses are incurred, and
(iii) it will pay when due any damages awarded.

25. GENERAL PROVISIONS.

A. GOVERNING LAW AND JURISDICTION. This Agreement shall be governed by and interpreted in accordance with the laws of the State of California. Each of the parties hereto consents to such jurisdiction for the enforcement of this Agreement and matters pertaining to the transaction and activities contemplated herby.

B. NOTICES. All notices and other communications provided for or permitted hereunder shall be made by hand delivery, first class mail, telex, or telecopier, addressed as follows:

Party	Address
Employer:	Targeted Medical Pharma, Inc. 2980 Beverly Glen Circle, Suite 301 Los Angeles, California 90077
Executive:	Amir Blachman 1824 Manning Avenue #16 Los Angeles, CA 90025

All such notices and communications shall be deemed to have been duly given when delivered by hand, if personally delivered; five (5) business days after deposit in any United States Post Office in the Continental United States, postage prepaid, if mailed; when answered back, if telefaxed; and when receipt is acknowledged or confirmed, if telecopied.

C. ATTORNEYS' FEES. In the event a dispute arises with respect to this Agreement, the party prevailing in such dispute shall be entitled to recover all expenses, including, without limitation, reasonable attorneys' fee and expenses incurred in ascertaining such party's rights in preparing to enforce or in enforcing such party's rights under this Agreement, whether or not it was necessary for such party to institute suit.

D. COMPLETE AGREEMENT. This Agreement supersedes any and all of the other agreements, either oral or in writing, between the Employer and Executive with respect to the subject matter hereof and contains all of the covenants and agreements between the Employer and Executive with respect to such subject matter in any manner whatsoever. Each Party to this Agreement acknowledges that no representations, inducements, promises or agreements, oral or otherwise, have been made by any party, or anyone herein, and that no other agreement, statement or promise not contained in this Agreement shall be valid or binding. This Agreement may be changed or amended only by an amendment in writhing signed by all of the Parties or their respective successors-in-interest.

E. BINDING. The Agreement shall be binding upon and inure to the benefit of the successors-in-interest, assigns and personal representatives of the respective Parties. If Executive should die while any amount would still be payable to Executive hereunder if Executive had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to Executive's devisee, legatee or other designee or if there is no such designee, to Executive's Family Trust.

F. AUTHORITY. Each of the Parties hereby represents and warrants to the other that:

(iii) he has the power and authority to enter into this Agreement, and

(iv) the execution, delivery and performance of this Agreement does not and will not violate the terms of any agreement or other instruments to which he is a party or by which he is bound. Employer further represents and warrants to Executive that this Agreement has been duly authorized by all necessary corporate action and has been duly and validly executed and delivered by Employer and constitutes the valid and binding obligation of Employer, enforceable against Employer in accordance with its terms.

G. NUMBER AND GENDER. Whenever the singular number is used in this Agreement and when required by context, the same shall include the plural, and the masculine gender shall include the feminine and neuter genders and the word "person" shall include corporation, firm partnership or other form of association.

H. FAILURE TO OBJECT NOT A WAIVER. The failure of either Party to this Agreement to object to or to take affirmative action with respect to any conduct of the other which is in violation of the terms of this Agreement, shall not be construed as a waiver of the violation or breach or of future violation, breach or wrongful conduct.

I. UNENFORCEABLE TERMS. Any provision hereof prohibited by law or unenforceable under the law of any jurisdiction in which such provision is applicable shall as to such jurisdiction only be ineffective without affecting any other provision of this Agreement. TO the full extent, however, that such applicable law may be waived to the end that this Agreement be deemed to be a valid and binding agreement enforceable in accordance with its terms, the Parties hereto hereby waive such applicable law knowingly and understanding the effect of such waiver.

J. EXECUTION IN COUNTERPARTS. This Agreement may be executed in several counterparts and when so executed shall constitute one agreement binding on all the Parties, notwithstanding that all the Parties are not signatory to the original and same counterpart.

K. FUTHER ASSURANCE. Form time each party will execute and deliver such further instruments and will take such other action as any other Party may reasonably request in order to discharge and perform their obligations and agreements hereunder and to give effect to the intentions expressed in this Agreement.

L. INCORPORATION BY REFERENCE. All exhibits referred to in this Agreement are incorporated herein tin their entirety by such reference.

M. CROSS REFERENCES. All cross references in this Agreement, unless specifically directed to another agreement into separate articles and paragraphs are for the purpose of convenience only and shall not be considered a party hereof. The language in all parts of this agreement shall in all costs be construed in accordance with its fair meaning as if prepared by all Parties to the Agreement and not strictly for or against any of the Parties.

26. If any provision of this agreement is held invalid or unenforceable, the remainder of this agreement shall nevertheless remain in full force and effect. If any provision is held invalid or unenforceable with respect to particular circumstances, it shall nevertheless remain in full force and effect in all other circumstances.

Executed by the parties as of the day and year first above written.

EMPLOYER
TARGETED MEDICAL PHARMA, INC.

Dated: 2/8/2011 By /s/ William Shell
William Shell MD, CEO

EXECUTIVE

Dated: 2/8/2011 By /s/ Amir Blachman
Amir Blachman

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Targeted Medical Pharma, Inc.
2980 Beverly Glen Circle
Suite 301
Los Angeles, California

We hereby consent to the use in the Registration Statement on Form S-1 of our report dated January 31, 2011, relating to the financial statements of Targeted Medical Pharma, Inc. which is contained in that Registration Statement. We also consent to the reference to us under the caption, "Experts", in this Registration Statement.

EFP Rotenberg, LLP

EFP Rotenberg, LLP
Rochester, New York
February 14, 2011