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

FORM 10-Q

(Mark One)

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

For the quarterly period ended **March 31, 2013**

or

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

For the transition period from _____ to _____

Commission File Number: 000-53071

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

Delaware	20-5863618
(State or other jurisdiction of Incorporation or organization)	(I.R.S. Employer Identification No.)
2980 Beverly Glen Circle Los Angeles, California	90077
(Address of principal executive offices)	(Zip Code)

(310) 474-9809
(Registrant's telephone number, including area code)

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

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

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

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

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☒

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: As of May 15, 2013, there were 23,299,430 shares of common stock, par value $0.001 per share, of the Registrant outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

TARGETED MEDICAL PHARMA, INC.
CONSOLIDATED BALANCE SHEETS
March 31, 2013 and December 31, 2012

	March 31, 2013 (Unaudited)	December 31, 2012
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 57,936	$ 326,603
Inventory	694,478	478,499
Accounts Receivable (Net of Allowance for Bad Debt))	519,858	353,993
Loans Receivable - Employees	5,352	6,033
Prepaid Expenses - Short Term	341,939	211,738
Prepaid Taxes	900,863	900,863
Deferred Tax Asset - Short Term	355,054	321,084
Total Current Assets	2,875,480	2,598,813
Property and Equipment - Net of Accumulated Depreciation	315,927	340,096
Intangible Assets - Net of Accumulated Amortization	2,310,628	2,318,619
Prepaid Expenses - Long Term	-	26,679
Deferred Tax Asset - Long Term	6,722,803	6,491,153
Total Assets	$ 12,224,838	$ 11,775,360
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
Liabilities:		
Accounts Payable	2,243,268	2,161,021
Accrued Expenses	5,255,494	4,862,636
Notes Payable-Related Parties: Short-term	5,067,908	5,032,942
Other Amounts due to Related Parties	-	-
Deferred Tax Liability - Current	69,648	69,648
Derivative Liability	100,495	188,475
Total Current Liabilities	12,736,813	12,314,722
Notes Payable-Related Parties: Long-term (Net of discounts of $121,550 and $149,739 respectively)	366,098	385,709
Deferred Income Taxes	1,103,062	1,076,965
Total Liabilities	14,205,973	13,777,396
Shareholders' Deficit:		
Preferred stock, $0.001 par value; 20,000,000 shares authorized, no shares issued and outstanding	-	-
Common stock, $0.001 par value; 100,000,000 shares authorized, 23,011,782 and 23,008,782 shares issued and outstanding at March 31, 2013 and December 31, 2012, respectively	23,012	23,009
Additional Paid-In Capital	11,950,919	11,659,744
Accumulated Deficit	(13,955,066)	(13,684,789)
Total Shareholders' Deficit	(1,981,135)	(2,002,036)
Total Liabilities and Shareholders' Equity (Deficit)	$ 12,224,838	$ 11,775,360

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

TARGETED MEDICAL PHARMA, INC.
CONDENSED CONSOLIDATED STATEMENTS OF LOSS
Three Months ended March 31, 2013 and 2012 (unaudited)

	March 31, 2013	March 31, 2012
Revenues:		
Product Revenue	$ 2,479,551	$ 1,272,810
Service Revenue	331,580	102,375
Total Revenue	2,811,131	1,375,185
Cost of Product Sold	351,479	189,993
Cost of Services Sold	547,195	444,742
Total Cost of Sales	898,674	634,735
Total Gross Profit	1,912,457	740,450
Operating Expenses:		
Research and Development	32,080	27,264
Selling, General and Administrative	2,388,638	2,284,354
Total Operating Expenses	2,420,718	2,311,618
Net Loss before Other Income and Expense	(508,261)	(1,571,168)
Other Income and Expense:		
Interest Income (Expense)	(89,518)	(75,839)
Derivative Revaluation	87,979	-
Total Other Income and (Expense)	(1,539)	(75,839)
Net Loss before Taxes	(509,800)	(1,647,007)
Deferred Income Tax Expense (Benefit)	(239,523)	(671,090)
Net Loss	$ (270,277)	$ (975,917)
Basic and Diluted Loss Per Share	$ (0.01)	$ (0.04)
Basic and Diluted Weighted Average Number of Common Shares Outstanding	23,010,015	21,949,576

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

TARGETED MEDICAL PHARMA, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)
Year ended December 31, 2012 and Three Months ended March 31, 2013 (unaudited)

	Number of Shares of Common Stock	Amount	Additional Paid-In Capital	Accumulated Deficit	Total
Balance - January 1, 2012	21,949,576	$ 21,950	$ 4,684,095	$ (4,098,607)	$ 607,438
Warrants Issued in connection with loans from related party	-	-	1,140,838	-	1,140,838
Stock Issued for Services	100,000	100	99,900	-	100,000
Stock Option Expense	-	-	1,054,212	-	1,054,212
Exercise of Stock Options	108,021	108	(108)	-	-
Removal of Derivative Liability for Warrants Exercised	-	-	4,681,658	-	4,681,658
Exercise of Warrants	851,185	851	(851)		-
Net Loss	-	-	-	(9,586,182)	(9,586,182)
Balance - December 31, 2012	23,008,782	$ 23,009	$ 11,659,744	$ (13,684,789)	$ (2,002,036)
Stock Issued for Services	3,000	3	6,537	-	6,540
Stock Option Expense	-	-	284,638	-	284,638
Net Loss	-	-	-	(270,277)	(270,277)
Balance - March 31, 2013 (unaudited)	23,011,782	$ 23,012	$ 11,950,919	$ (13,955,066)	$ (1,981,135)

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

TARGETED MEDICAL PHARMA, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Three Months ended March 31, 2013 and 2012 (unaudited)

	March 31, 2013	March 31, 2012
Cash Flows from Operating Activities:		
Net Loss	$ (270,277)	$ (975,917)
Adjustments:		
Depreciation and Amortization	100,555	111,236
Stock Option Compensation	284,638	176,330
Stock Issued for Services	6,540	-
Deferred Income Taxes	(239,523)	(671,090)
Amortization of Note Discount	28,189	-
Derivative Liability	(87,979)	-
Changes:		
Inventory	(215,979)	(352,153)
Accounts Receivable	(165,865)	278,208
Loans Receivable - Employees	681	1,586
Prepaid Expenses	(103,522)	(203,109)
Deferred Tax Asset	(26,097)	-
Other Assets	-	(20,000)
Accounts Payable	82,247	119,211
Accrued Expenses	605,023	183,599
Deferred Tax Liability	26,097	-
Net Cash Flows from (Used by) Operating Activities	24,728	(1,352,099)
Cash Flows from Investing Activities:		
Net Sales or (Purchases) of Investments	-	-
Acquisition of Intangible Assets	(57,187)	(26,552)
Purchases of Property and Equipment	(11,208)	(27,866)
Net Cash Flows from Investing Activities	(68,395)	(54,418)
Cash Flows from Financing Activities:		
Notes Payable-Related Parties	-	1,270,000
Repayment of Notes Payable-Related Parties	(225,000)	
Due to Related Parties	-	-
Net Cash Flows from Financing Activities	(225,000)	1,270,000
Net Change in Cash and Cash Equivalents	(268,667)	(136,517)
Cash and Cash Equivalents - Beginning of Year	326,603	147,364
Cash and Cash Equivalents - End of Period	$ 57,936	$ 10,847
Supplemental Disclosure of Cash Flow Information		
Interest Paid	210,474	-
Income Taxes Paid	-	103,600

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

Notes to Condensed Consolidated Financial Statements

Note 1: Business Activity

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

Segment Information :

The Company had no revenue outside of the United States for the three months ended March 31, 2013 and 2012, respectively. The Company’s operations are organized into two reportable segments: TMP and CCPI.

- TMP : This segment includes PTL and LIS as described above. This segment develops and distributes nutrient based therapeutic products and distributes pharmaceutical products from other manufacturers through employed sales representatives and distributors. TMP also performs the administrative, regulatory compliance, sales and marketing functions of the corporation, owns the corporation’s intellectual property and is responsible for research and development relating to medical food products and the development of software used for the dispensation and billing of medical foods, generic and branded products. The TMP segment also manages contracts and chargebacks.

- CCPI : This segment provides point-of-care dispensing solutions and billing and collections services. It is responsible for the research and development of billing software and methodologies and the customization of hardware that supports dispensing, billing and collection operations.

Segment Information for the three months ended March 31,

2013 (unaudited)	Total	TMP	CCPI
Gross Sales	$ 2,811,131	$ 2,479,551	$ 331,580
Gross Profit (Loss)	$ 1,912,457	$ 2,128,072	$ (215,615)
Net Loss	$ (270,277)	$ (54,662)	$ (215,615)
Total Assets	$ 12,224,838	$ 12,315,917	$ (91,079)
less Eliminations	$ -	$ (151,779)	$ 151,779
Net Total Assets	$ 12,224,838	$ 12,164,138	$ 60,700

2012 (unaudited)	Total	TMP	CCPI
Gross Sales	$ 1,375,185	$ 1,272,810	$ 102,375
Gross Profit	$ 740,450	$ 1,082,817	$ (342,367)
Net Loss	$ (975,917)	$ (633,550)	$ (342,367)
Total Assets	$ 9,555,986	$ 9,796,010	$ (240,024)
less Eliminations	$ -	$ (210,231)	$ 210,231
Net Total Assets	$ 9,555,986	$ 9,585,779	$ (29,793)

Note 2: Summary of Significant Accounting Policies

General: The accompanying unaudited financial statements include all adjustments of a normal and recurring nature which, in the opinion of Company's management, are necessary to present fairly the Company's financial position as of March 31, 2013, the results of its operations for the three months March 31, 2013 and 2012, and cash flows for three months ended March 31, 2013 and 2012. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to the rules and regulations of the Securities and Exchange Commission. These condensed financial statements should be read in conjunction with the audited financial statements and related notes for the fiscal year ended December 31, 2012 contained in the Company's Current Report on Form 10-K dated April 1, 2013.

The results of operations and cash flows for the three months ended March 31, 2013 are not necessarily indicative of the results to be expected for the full year's operation.

Going concern : The accompanying consolidated financial statements have been prepared on the basis that the Company will continue as a going concern. The Company has losses for the three months ended March 31, 2013 totaling $268,650 as well as accumulated deficit amounting to $13,953,439. Further, the Company does not have adequate cash and cash equivalents as of March 31, 2013 to cover projected operating costs for the next 12 months. These factors raise substantial doubt about the ability of the Company to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties. As a result, the Company is dependent upon further financing, related party loans, development of revenue streams with shorter collection times and accelerating collections on our physician managed and hybrid revenue streams. If we are unable to do so, our liquidity would be adversely affected and we would consider taking a variety of actions, including attempting to reduce fixed costs (for example, further reducing the size of our administrative work force), curtailing or reducing planned capital additions, raising additional equity capital, borrowing additional funds, refinancing existing indebtedness or taking other actions.

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

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

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

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

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

Revenue Recognition :

Under the following revenue models product sales are invoiced upon shipment:

- *Physician Direct Sales Model* (1% of product revenues for the three months ended March 31, 2013): Under this model, a physician purchases products from TMP but does not retain CCPI's services. TMP invoices the physician upon shipment under terms which allow a significant rapid pay discount off AWP for payment within discount terms in accordance with the product purchase agreement. The physicians dispense the product and perform their own claims processing and collections. TMP recognizes revenue under this model on the date of shipment at the gross invoice amount less the anticipated rapid pay discount offered in the product purchase agreement. In the event payment is not received within the term of the agreement, the amount payable for the purchased TMP products reverts to the AWP. In addition, if payment is not received within the agreed-upon term, a late payment fee of up to 20% may be applied to the outstanding balance. The physician is responsible for payment directly to TMP.

- *Distributor Direct Sales Model* (28% of product revenues for the three months ended March 31, 2013): Under this model, a distributor purchases products from TMP and sells those products to a physician and the physician does not retain CCPI's services. TMP invoices distributors upon shipment under terms which include a significant discount off AWP. TMP recognizes revenue under this model on the date of shipment at the net invoice amount. In the event payment is not received within the term of the agreement, the amount payable for the purchased TMP products reverts to the AWP. In addition, if payment is not received within the agreed-upon term, a late payment fee of up to 20% may be applied to the outstanding balance.

Due to substantial uncertainties as to the timing and collectability of revenues derived from our Physician Managed and Hybrid models described below, which can take in excess of five years to collect, we have determined that these revenues did not meet the criteria for recognition in accordance with ASC 605, *Revenue Recognition* . These revenues are therefore required to be recorded when collectability is reasonably assured, which the Company has determined is when the payment is received.

- *Physician Managed Model* (51% of product revenues for the three months ended March 31, 2013): Under this model, a physician purchases products from TMP and retains CCPI's services. TMP invoices physician upon shipment to physician under terms which allow a significant rapid pay discount for payment received within terms in accordance with the product purchase agreement which includes a security interest for TMP in the products and receivables generated by the dispensing of the products. The physician also executes a billing and claims processing services agreement with CCPI for billing and collection services relating to our products (discussed below). CCPI submits a claim for reimbursement on behalf of the physician client. The CCPI fee and product invoice amount are deducted from the reimbursement received by CCPI on behalf of the physician client before the reimbursement is forwarded to the physician client. In the event the physician fails to pay the product invoice within the agreed term, we can deduct the payment due from any of the reimbursements received by us on behalf of the physician client as a result of the security interest we obtained in the products we sold to the physician client and the receivables generated by selling the products in accordance with our agreement. In the event payment is not received within the term of the agreement, the amount payable for the purchased TMP products reverts to the AWP. In addition, if payment is not received within the agreed-upon term, a late payment fee of up to 20% is applied to the outstanding balance. However, since we are in the early stage of our business, as a courtesy to our physician clients, our general practice has been to extend the rapid pay discount beyond the initial term of the invoice until the invoice is paid and not to apply a late payment fee to the outstanding balance. TMP recognizes revenue under this model on the date payment is received.

- *Hybrid Model* (20% of product revenues for the three months ended March 31, 2013): Under this model, a distributor purchases products from TMP and sells those products to a physician and the physician retains CCPI's services. TMP invoices distributors upon shipment under terms which allow a significant rapid pay discount for payment received within terms in accordance with the product purchase agreements. The physician client of the distributor executes a billing and claims processing services agreement with CCPI for billing and collection services (discussed below). The distributor product invoice and the CCPI fee are deducted from the reimbursement received by CCPI on behalf of the physician client before the reimbursement is forwarded to the distributor for further delivery to their physician clients. In the event payment is not received within the term of the agreement, the amount payable for the purchased TMP products reverts to the AWP. In addition, if payment is not received within the agreed-upon term, a late payment fee of up to 20% is applied to the outstanding balance. However, since we are in the early stage of our business, as a courtesy to our physician clients, our general practice has been to extend the rapid pay discount beyond the initial term of the invoice until the invoice is paid and not to apply a late payment fee to the outstanding balance. TMP recognizes revenue under this model on the date payment is received.

In the three months ended March 31, 2013 and 2012, the Company issued billings to Physician Managed and Hybrid model customers aggregating $2.9 million and $3.0 million, respectively, which were not recognized as revenues or accounts receivable in the accompanying consolidated financial statements at the time of such billings. Direct costs associated with the above billings are expensed as incurred. Direct costs associated with these billings aggregating $351,479 and $189,993 respectively, were expensed in the accompanying consolidated financial statements at the time of such billings. However, in accordance with the revenue recognition policy described above, the Company recognized revenues from certain of these customers when cash was collected aggregating $1,754,344 and $754,529 in the three months ended March 31, 2013 and 2012, respectively. The $1,754,344 of Physician Managed and Hybrid model revenue recognized in the three months ended March 31, 2013 includes $307,509 of revenue realized under our agreement with Cambridge. Under this agreement certain claims filed by CCPI on behalf of our physician customers are assigned to Cambridge in exchange for cash payments based on a percentage of the claim value. Any related claim payments made to CCPI are remitted to Cambridge. Cumulative claim payments in excess of cash paid to the Company are shared between Cambridge, the Company and its physician customers according to contract terms. As of March 31, 2013 and December 31, 2012 we had $34.6 million and $34.4 million respectively in unrecorded accounts receivable and revenues that potentially will be recorded as revenue in the future as our CCPI subsidiary secures claims payments on behalf of our PMM and Hybrid Customers. All unpaid invoices underlying claims assigned to Cambridge are excluded from unrecorded accounts receivable and revenues.

CCPI receives no revenue in the physician direct or distributor direct models because it does not provide collection and billing services to these customers. In the Physician Managed and Hybrid models, CCPI has a billing and claims processing service agreement with the physician. That agreement includes a service fee defined as a percentage of collections on all claims. Because fees are only earned by CCPI upon collection of the claim and the fee is not determinable until the amount of the collection of the claim is known, CCPI recognizes revenue at the time that collections are received.

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

The rapid pay discounts to the AWP offered to the physician or distributor, under the models described above, vary based upon the expected payment term from the physician or distributor. The discounts are derived from the Company's historical experience of the collection rates from internal sources and updated for facts and circumstances and known trends and conditions in the industry, as appropriate. As described in the models above, we recognize provisions for rapid pay discounts in the same period in which the related revenue is recorded. We believe that our current provisions appropriately reflect our exposure for rapid pay discounts. These rapid pay discounts, have typically ranged from 40% to 88% of Average Wholesale Price and we have monitored our experience ratio periodically over the prior twelve months and have made adjustments as appropriate.

Allowance for doubtful accounts : Trade accounts receivable are stated at the amount management expects to collect from outstanding balances. Currently accounts receivable are comprised totally of amounts due from our distributor customers and receivables for our PDRx equipment. The carrying amounts of accounts receivable are reduced by an allowance for doubtful accounts that reflects management's best estimate of the amounts that will not be collected. We individually review all accounts receivable balances and based on an assessment of current creditworthiness, estimate the portion, if any, of the balance that will not be collected. We provide for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on our assessment of the current status of individual accounts. Balances that are still outstanding after we have used reasonable collection efforts will be written off. Based on an assessment as of December 31, 2012 of the collectability of invoices 120 days or more past their due dates we established an allowance for doubtful accounts of $215,346. There was no change to this allowance in the three months ended March 31, 2013.

Under the Company's physician managed model and hybrid model, CCPI performs billing and collection services on behalf of the physician client and deducts the CCPI fee and product invoice amount from the reimbursement received by CCPI on behalf of the physician client before the reimbursement is forwarded to the physician client . Extended collection periods are typical in the workers compensation industry with payment terms extending from 45 days to in excess of five years. The physician remains personally liable for purchases of product from TMP and, during this long collection cycle, TMP retains a security interest in all products sold to the physician along with the claims receivable that result from sales of the products. CCPI maintains an accounting of all managed accounts receivable on behalf of the physician and regularly reports to the physician. As described above, due to uncertainties as to the timing and collectability of revenues derived from these models, revenue is recorded when payment is received therefore no allowance for doubtful accounts is necessary.

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

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

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

Impairment of long-lived assets : The long-lived assets held and used by the Company are reviewed for impairment no less frequently than annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In the event that facts and circumstances indicate that the cost of any long-lived assets may be impaired, an evaluation of recoverability is performed. No impairment indicators existed at December 31, 2012 or March 31, 2013 so no long-lived asset impairment was recorded for the year ended December 31, 2012 or the three months ended March 31, 2013.

Intangible assets : Intangible assets with finite lives, including patents and internally developed software (primarily the Company's PDRx Software), are stated at cost and are amortized over their useful lives. Patents are amortized on a straight line basis over their statutory lives, usually fifteen to twenty years. Internally developed software is amortized over three to five years. Intangible assets with indefinite lives are tested annually for impairment, during the fiscal fourth quarter and between annual periods, and more often when events indicate that an impairment may exist. If impairment indicators exist the intangible assets are written down to fair value as required. No impairment indicators existed at December 31, 2012 or March 31, 2013 so no intangible asset impairment was recorded for the year ended December 31, 2012 or the three months ended March 31, 2013.

Fair value of financial instruments : The Company's financial instruments are accounts receivable, accounts payable, notes payable, warrants and derivative liability. The recorded values of accounts receivable and accounts payable approximate their values based on their short term nature. Notes payable are recorded at their issue value or if warrants are attached at their issue value less the value of the warrant. Warrants issued with ratcheting provisions are revalued each quarter based on changes in the market value of our common stock.

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 assumptions: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities including liabilities resulting from imbedded derivatives associated with certain warrants to purchase common stock..

Derivative Financial Instruments :
The Company's objectives in using derivative financial instruments are to obtain the lowest cash cost-source of funds. Derivative liabilities are recognized in the consolidated balance sheets at fair value based on the criteria specified in FASB ASC topic 815-40 " *Derivatives and Hedging – Contracts in Entity's own Equity* ". The estimated fair value of the derivative liabilities is calculated using level 3 assumptions in the Black-Scholes-Merton method where applicable and such estimates are revalued at each balance sheet date, with changes in value recorded as other income or expense in the consolidated statement of operations. Certain of the Company's warrants are now accounted for as derivatives. As of March 31, 2013, 95,000 warrants were classified as derivative liabilities. For each reporting period the warrants are re-valued and adjusted through the caption "derivative revaluation" on the consolidated statements of operations.

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

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

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

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

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

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

	March 31, 2013	March 31, 2012
Options, Warrants and Convertible Debt shares excluded	882,538	941,357

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

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

Note 3: Stock Based Compensation

For the three months ended March 31, 2013 and 2012, the Company recorded compensation costs for stock option grants amounting to $284,638 and $176,330 and stock grants of $6,540 and $0, respectively. As of March 31, 2013 the Company had compensation expense related to stock option grants of $137,611 which will be recognized in future periods. A deduction is not allowed for income tax purposes until nonqualified options are exercised. The amount of this deduction will be the difference between the fair value of the Company's common stock and the exercise price at the date of exercise. Accordingly, there is a deferred tax asset recorded for the tax effect of the financial statement expense recorded. The tax effect of the income tax deduction in excess of the financial statement expense, if any, will be recorded as an increase to additional paid-in capital. No tax deduction is allowed for incentive stock options (ISO). Accordingly no deferred tax asset is recorded for GAAP expense related to these options.

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

The fair value of options granted in the three months ended March 31, 2013 was determined using the following assumptions:

- Volatility factors of 86.37% to 86.55% were based on similar companies;
- Expected terms of 5 years based on one-half of the average of the vesting term and the ten year expiration of the option grant;
- A dividend rate of zero; and
- The risk free rate was the treasury rate with a maturity of the expected term (0.77% to 0.85%).

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

	Number of Shares Remaining Options	Weighted Average Exercise Price	Intrinsic Value
Outstanding at January 1, 2013	1,770,437	$ 2.31	$ 1.28
Options granted during 2013	440,800	$ 1.50	$ 0.49
Options exercised during 2013	-	$ -	$ -
Options forfeited during 2013	85,496	$ 2.85	$ 0.85
Outstanding at March 31, 2013	2,125,741	$ 2.12	$ 1.14
Exercisable at March 31, 2013	1,960,776	$ 2.20	$ 1.18

Fair value of options granted during the three months ended March 31, 2013 ranged from $1.0093 to $1.0108 per option.

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

	Number of Non-vested Shares	Weighted Average fair Value at Grant Date	Intrinsic Value
Non-vested at January 1, 2013	153,594	$ 0.32	$ 0.65
Granted in three months ended March 31, 2013	440,800	$ 1.01	$ 0.49
Forfeited in three months ended March 31, 2013	23,664	$ 2.26	$ 1.12
Vested in three months ended March 31, 2013	405,765	$ 1.01	$ 0.50
Non-vested at March 31, 2013	164,965	$ 0.61	$ 0.58

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

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

EBIDTA	**Options**
$ 50,000,000	an option to purchase 5,000 shares Common Stock.
$ 60,000,000	an option to purchase 7,500 shares Common Stock.
$ 80,000,000	an option to purchase 7,500 shares Common Stock.
$ 100,000,000	an option to purchase 10,000 shares Common Stock.
$ 125,000,000	an option to purchase 10,000 shares Common Stock.
$ 150,000,000	an option to purchase 10,000 shares Common Stock.
$ 175,000,000	an option to purchase 15,000 shares Common Stock.
$ 200,000,000	an option to purchase 50,000 shares Common Stock.
$ 250,000,000	an option to purchase 75,000 shares Common Stock.

To date no options have been granted in connection with the incentive plans in the above referenced employment agreements.

There were no loans made by related parties and no warrants were issued in the three months ended March 31, 2013. The fair value of warrants issued in connection with certain loans made by related parties during the three months ended March 31, 2012 was determined using the Black Scholes Option Pricing Model with the following assumptions:

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

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

Issue Date	Issued to	Number of Warrants		Exercise Price	Expiration Date
08/19/11	William Shell Survivor's Trust	43,568	$	3.38	08/09/16
09/01/11	William Shell Survivor's Trust	23,237	$	3.38	09/01/16
09/23/11	William Shell Survivor's Trust	15,104	$	3.38	09/23/16
09/28/11	William Shell Survivor's Trust	58,091	$	3.38	09/28/16
10/17/11	William Shell Survivor's Trust	50,296	$	3.38	10/17/16
10/20/11	William Shell Survivor's Trust	36,982	$	3.38	10/20/16
11/08/11	William Shell Survivor's Trust	35,503	$	3.38	11/08/16
11/22/11	William Shell Survivor's Trust	41,420	$	3.38	11/22/16
12/07/11	William Shell Survivor's Trust	34,024	$	3.38	12/07/16
01/04/12	William Shell Survivor's Trust	8,876	$	3.38	01/04/17
01/18/12	William Shell Survivor's Trust	7,396	$	3.38	01/18/17
01/19/12	William Shell Survivor's Trust	29,586	$	3.38	01/19/17
01/31/12	William Shell Survivor's Trust	59,172	$	3.38	01/31/17
02/01/12	William Shell Survivor's Trust	73,964	$	3.38	02/01/17
02/15/12	William Shell Survivor's Trust	59,172	$	3.38	02/15/17
02/29/12	William Shell Survivor's Trust	71,006	$	3.38	03/01/17
03/15/12	William Shell Survivor's Trust	22,189	$	3.38	03/15/17
03/28/12	William Shell Survivor's Trust	44,379	$	3.38	03/28/17
06/22/12	William Shell Survivor's Trust	250,000	$	1.00	04/11/17
06/22/12	William Shell Survivor's Trust	100,000	$	1.00	04/19/17
06/22/12	William Shell Survivor's Trust	200,000	$	1.00	04/26/17
06/22/12	William Shell Survivor's Trust	150,000	$	1.00	05/02/17
06/22/12	William Shell Survivor's Trust	110,000	$	1.00	05/10/17
06/22/12	William Shell Survivor's Trust	220,000	$	1.00	05/24/17
06/22/12	William Shell Survivor's Trust	190,000	$	1.00	05/25/17
06/22/12	William Shell Survivor's Trust	175,000	$	1.00	06/13/17
06/27/12	William Shell Survivor's Trust	220,000	$	1.00	06/27/17
07/05/12	William Shell Survivor's Trust	95,000	$	1.00	07/05/17
		2,423,964			

(a) On December 21, 2012, the Elizabeth Charuvastra and William Shell Family Trust Dated July 27, 2006 and Amended September 29, 2006 assigned its interests in the above warrants to the William Shell Survivors Trust.

The following table summarizes the status of the Company's aggregate warrants.

	Number of Shares Remaining Warrants		Weighted Average Exercise Price
Warrants at January 1, 2013	2,423,965	$	1.70
Exercisable at January 1, 2013	2,423,965	$	1.70
Warrants granted during 2013	-		-
Warrants exercised during 2013	-		-
Warrants at March 31, 2013	2,423,965	$	1.70
Exercisable at March 31, 2013	2,423,965	$	1.70

The following table summarizes the changes in the estimated fair values of our warrant liabilities.

		Warrant Liability
Beginning balance as of January 1, 2013	$	188,475
Issuance of warrants	$	-
Mark-to-market adjustment	$	(87,979)
Exercise of Warrants	$	-
Ending balance as of March 31, 2013	$	100,495

Note 4: Accrued Expenses

The following table summarizes the major components of the Company's accrued expenses.

	March 31,2013 2013	December 31, 2012
Due to Physicians	$ 2,428,909	$ 1,800,525
Accrued Salary, Wages, Commissions and Benefits	1,296,997	957,215
Accrued Income Tax Penalties and Interest-2010	752,281	752,281
Accrued Board Fees	449,316	473,750
Acrrued-Other	327,991	878,865
Total Accrued Expense	$ 5,255,494	$ 4,862,636

Note 5: Notes Payable – Related Parties

The following table summarizes the status of the Company's outstanding notes as of March 31, 2013

Date	Issued to		Original Note Amount	Principal Repaid	Outstanding Note Amount	Interest Rate	Date Payable	
01/31/11	William Shell Survivor's Trust	(a)	$ 293,334	$ 171,936	$ 121,398	6.00%	On Demand	
01/31/12	Giffoni Family Trust		146,666	39,156	107,510	6.00%	12/1/2012	(b)
05/04/11	William Shell Survivor's Trust		200,000	-	200,000	3.25%	On Demand	
05/04/11	Giffoni Family Trust		100,000	-	100,000	3.25%	5/4/2016	
06/12/12	William Shell Survivor's Trust		200,000	-	200,000	3.25%	On Demand	
06/12/11	Giffoni Family Trust		100,000	-	100,000	3.25%	6/12/2016	
06/18/11	William Shell Survivor's Trust		150,000	-	150,000	3.25%	On Demand	
08/19/11	William Shell Survivor's Trust		150,000	-	150,000	3.95%	On Demand	
09/01/11	Lisa Liebman	(c)	80,000	-	80,000	3.95%	On Demand	
09/23/11	William Shell Survivor's Trust		52,000	-	52,000	3.95%	On Demand	
09/28/11	William Shell Survivor's Trust		200,000	-	200,000	3.95%	On Demand	
10/17/11	Lisa Liebman		170,000	-	170,000	3.95%	On Demand	
10/20/11	William Shell Survivor's Trust		125,000	-	125,000	3.95%	On Demand	
11/08/11	Lisa Liebman		120,000	-	120,000	3.95%	On Demand	
11/22/11	William Shell Survivor's Trust		140,000	-	140,000	3.95%	On Demand	
12/07/11	William Shell Survivor's Trust		115,000	-	115,000	3.95%	On Demand	
01/04/12	Lisa Liebman		30,000	-	30,000	3.95%	On Demand	
01/18/12	William Shell Survivor's Trust		25,000	-	25,000	3.95%	On Demand	
01/19/12	Lisa Liebman		100,000	-	100,000	3.95%	On Demand	
01/31/12	William Shell Survivor's Trust		200,000	-	200,000	3.95%	On Demand	
02/01/12	William Shell Survivor's Trust		250,000	-	250,000	3.95%	On Demand	
02/15/12	William Shell Survivor's Trust		200,000	-	200,000	3.95%	On Demand	
02/29/12	William Shell Survivor's Trust		240,000	-	240,000	3.95%	On Demand	
03/15/12	William Shell Survivor's Trust		75,000	-	75,000	3.95%	On Demand	
03/28/12	William Shell Survivor's Trust		150,000	-	150,000	3.95%	On Demand	
04/11/12	William Shell Survivor's Trust		250,000	-	250,000	3.95%	On Demand	
04/19/12	William Shell Survivor's Trust		100,000	-	100,000	3.95%	On Demand	
04/26/12	William Shell Survivor's Trust		200,000	-	200,000	3.95%	On Demand	
05/02/12	William Shell Survivor's Trust		150,000	-	150,000	3.95%	On Demand	
05/10/12	William Shell Survivor's Trust		110,000	-	110,000	3.95%	On Demand	
05/24/12	William Shell Survivor's Trust		220,000	-	220,000	3.95%	On Demand	
05/25/12	William Shell Survivor's Trust		190,000	-	190,000	3.95%	On Demand	
06/13/12	William Shell Survivor's Trust		175,000	-	175,000	3.95%	On Demand	
06/27/12	William Shell Survivor's Trust		220,000	-	220,000	3.95%	On Demand	
07/05/12	William Shell Survivor's Trust		95,000	-	95,000	3.95%	On Demand	
07/20/12	AFH Holdings and Advisory, LLC	(d)	585,448	297,800	287,648	8.50%	7/20/2014	
10/12/2012	William Shell Survivor's Trust		7,000	-	7,000	3.95%	On Demand	
12/4/2012	William Shell Survivor's Trust		50,000	-	50,000	12.00%	On Demand	
12/7/2012	William Shell Survivor's Trust		100,000	-	100,000	12.00%	On Demand	
			$ 6,064,448	$ 508,892	$ 5,555,556			
	Current				$ 5,067,908			

Long-term	$ 487,648
Less Unamortized discount	$ (121,550)
Net Long-term	$ 366,098

Annual maturities of the above debt are as follows:

2013	$ 5,067,908
2014	$ 287,648
2015	$ 0
2016	$ 200,000
2017	$ 0

(a) On December 21, 2012, the Elizabeth Charuvastra and William Shell Family Trust Dated July 27, 2006 and Amended September 29, 2006 assigned its interest in its notes listed above to the William Shell Survivor's Trust. The William Shell Survivor's Trust then assigned its interest in certain of the notes to Lisa Liebman.

(b) Or on the consummation of the Company's initial public offering.

(c) Lisa Liebman is married to William E. Shell. M.D., Chief Executive Officer of the Company.

(d) 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.

On December 12, 2010, the Company issued a promissory note to the Targeted Medical Pharma, Inc. Profit Sharing Plan (the "Plan") in the amount of $300,000 (the "Plan Note"). The note bears interest at a rate of 8.0 percent per annum and was payable on June 12, 2011. On June 12, 2011, the Company, the Plan, William E. Shell, Elizabeth Charuvastra, Kim Giffoni, the EC and WS Family Trust and the Giffoni Family Trust entered into an agreement (the "Note Agreement") pursuant to which the Plan assigned the Plan Note to Dr. Shell, Ms. Charuvastra and Mr. Giffoni in an amount of $100,000 each. Moreover, pursuant to the Note Agreement, each of Dr. Shell and Ms. Charuvastra assigned their respective interests in the Plan Note to the EC and WS Family Trust. In accordance with the Note Agreement, in connection with the assignments, the Plan Note was amended to extend the maturity date to December 15, 2015 and to reduce the interest rate from 8.0% per annum to 3.25% per annum. The Company issued new notes to each of the WC and WS Family Trust (in the amount of $200,000) and to Mr. Giffoni (in the amount of $100,000) to memorialize the amendments pursuant to the Note Agreement.

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

On June 22, 2012 the terms of all notes originally payable to the EC and WS Family Trust were modified to make the principal payable on demand and accrued interest payable on a quarterly basis. The Company recorded any remaining note discount as of June 22, 2012. As noted above those notes and related warrants were assigned to the William Shell Survivor's Trust.

Note 6: Recently Issued Accounting Pronouncements

In July 2012, the FASB issued ASU 2012-02, Testing Indefinite-Lived Intangible Assets for Impairment, which allows an entity to first assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset, other than goodwill, is impaired. If an entity concludes, based on an evaluation of all relevant qualitative factors, that it is not more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount, it will not be required to perform a quantitative impairment test for that asset. Entities are required to test indefinite-lived assets for impairment at least annually, and more frequently if indicators of impairment exist. This ASU will be effective for the Company on February 3, 2013, with early adoption permitted. The adoption of this ASU did not have a significant effect on our results of operations or financial position.

Note 7: Subsequent Events

On April 15, 2013, a former employee threatened the Company with litigation in connection with their termination. We are currently in negotiations on a settlement that would preclude such litigation. At this early stage we cannot project the amount of any settlement. We have insurance for such matters that limits our liability.

On April 25, 2013, the Company was notified that a former supplier filed suit against the company for inventory that was produced and not paid for. That inventory was produced without the Company's request or approval and we are seeking transfer of the suit to a Los Angeles, CA court because it was filed in Pittsburgh, PA, a venue not consistent with the Los Angeles, CA jurisdiction specified in the supplier agreement. We are also preparing a response to supplier's counsel for cancellation of the case based on our evidence proving we never ordered or approved manufacturing of the inventory.

On April 19, 2013 the Company's Registration Statement on Form S-1/A which registers upto 25,723,395 shares of common stock for resale was declared effective.

Note 8: Contingencies

On or about January 31, 2011, Steven B. Warnecke ("Warnecke") was hired as the Company's Chief Financial Officer (CFO) and resigned less than five (5) months later. At the time he resigned, he cited personal reasons for his resignation. He subsequently claimed that the Company breached its Employment Agreement with him. Warnecke has commenced an arbitration proceeding before JAMS, which is currently pending. ("Arbitration")

The Company disputes these allegations, given that Warnecke resigned from his position. The Company contends that Warnecke has been paid all undisputed wages and benefits owed as of the date of termination and is owed nothing further by Company. The Arbitration is currently pending before JAMS. The parties have exchanged written discovery. Discovery is ongoing. The Company intends to vigorously dispute the claims made by Warnecke, while pursuing reasonable efforts to achieve a resolution of this matter. At this time it is not possible for the Company to predict the ultimate outcome or any definitive estimate of the amount of loss, if any.

Legal costs to date of approximately $133,000 related to the above claim have been expensed as incurred.

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

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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 potential impact of our agreement with Cambridge;
- 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 Quarterly Report. We undertake no obligation to update any forward-looking statements or other information contained herein.

Information regarding market and industry statistics contained in this Quarterly Report 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.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2013 AND 2012

TARGETED MEDICAL PHARMA, INC.
CONSOLIDATED STATEMENTS OF LOSS
Three Months ended March 31, 2013 and 2012

	Three Months March 31, 2013	% of Sales	Three Months March 31, 2012	% of Sales
Revenues:				
Product Sales	$ 2,479,551	88.2%	$ 1,272,810	92.6%
Service Revenue	331,580	11.8%	102,375	7.4%
Total Revenue	2,811,131	100.0%	1,375,185	100.0%
Cost of Product Sold	351,479	12.5%	189,993	13.8%
Cost of Services Sold	547,195	19.5%	444,742	32.3%
Total Cost of Sales	898,674	32.0%	634,735	46.2%
Total Gross Profit	1,912,457	68.0%	740,450	53.8%
Operating Expenses:				
Research and Development	32,080	1.1%	27,264	2.0%
Selling, General and Administrative	2,388,638	85.0%	2,284,354	166.1%
Total Operating Expenses	2,420,718	86.1%	2,311,618	168.1%
Net Loss before Other Income	(508,261)	-18.1%	(1,571,168)	-114.3%
Other Income and Expense				
Interest Income (Expense)	(89,518)	-3.2%	(75,839)	-5.5%
Derivative Revaluation	87,979	3.1%	-	0.0%
Total Other Income (Expense)	(1,539)	-0.1%	(75,839)	-5.5%
Net Loss before Taxes	(509,800)	-18.2%	(1,647,007)	-119.8%
Deferred Income Tax (Benefit)	(239,523)	-8.6%	(671,090)	-48.8%
Net Loss	$ (270,277)	-9.6%	$ (975,917)	-71.0%

Revenue

Due to substantial uncertainties as to the amount of and timing and collectability of revenues derived from our Physician Managed Model (PMM) and Hybrid Model, which can take in excess of five years to collect, it was determined that these revenues did not meet the criteria for recognition in accordance with ASC 605, Revenue Recognition. These revenues are required to be recorded when collectability is reasonably assured, which in the case of these two business models, is when the payment is received and any applicable rapid pay discount offered in the product purchase agreement is applied to the original gross invoice.

Total reported revenue for the three months ended March 31, 2013 increased $1,435,946, or 104.4%, to $2,811,131 from $1,375,185 for the three months ended March 31, 2012. Product revenue increased $1,206,741, or 94.8%, from the prior year of $1,272,810 to $2,479,551, primarily due to increased billings and collections in all of our business lines including payments from Cambridge Medical Funding for assignment of certain new claims. Billings (net of applicable discounts) were flat year over year due to a higher proportion of Distributor and Hybrid billings and higher discounts on PMM billings due to an increase in our distributor and PMM businesses.

Reported product revenue for PMM and Hybrid customers includes cash applied during the three month periods to open invoices (regardless of year originally invoiced) for the respective periods. Reported product revenue is further described in the following schedule:

	3 Months ended	March 31, 2013		March 31, 2012	
	Revenue Recognition Basis		**% of Sales**		**% of Sales**
PMM/Hybrid	cash	1,754,344	70.8%	754,529	59.3%
Direct/Distributor	accrual	725,207	29.2%	518,281	40.7%
Total		2,479,551	100.0%	1,272,810	100.0%

Service revenue increased $229,205 from $102,375 in the prior year period to $331,580 due to increased collections.

Cost of Products Sold

The reported cost of products sold for the three months ended March 31, 2013 increased $161,486 from $189,993 to $351,479 and the percentage of cost of product sold to reported product revenue decreased from 14.9% for the three months ended March 31, 2012 compared to 14.2% for the three months ended March 31, 2013. This decreased percentage is primarily due to higher reported revenue combined with the change in revenue recognition policy whereby cost of product shipped and billed is expensed on a current basis while revenue is recognized on payment under our PMM and Hybrid Models, and to an increase in billings to our Distributor and PMM customers. The actual cost of product as a percent of products invoiced during the three months ended March 31, 2013 was 8.0% compared with 5.4% in the prior year period due to a higher concentration of Distributor and Hybrid billings both of which are more highly discounted compared with PMM billings and to an increase in the discount rate on PMM billings. The difference between these figures and the 14.2% and 14.9% described above is attributable to the timing differences due to our revenue recognition policy. The following table illustrates the revenue recognition timing impact on cost of products sold:

Cost of Products Sold

	3 Months ended	March 31, 2013	March 31, 2012
Reported Product Revenue		2,479,551	1,272,810
Cost of Product Sold % of Reported Revenue		14.2%	14.9%
PMM & Hybrid Billings	Unrecognized	2,863,686	2,988,091
Direct & Distributor Billings	Recognized	725,207	518,281
Total Billings		3,588,893	3,506,372
Cost of Product Sold	Recognized	351,479	189,993
Cost of Product Sold % of Billings		9.8%	5.4%
Cost of Product Sold % of Reported Revenue attributable to timing differences		4.4%	9.5%

Cost of Services Sold

The cost of services sold for the three months ended March 31, 2013 increased $102,453, from $444,742 for the three months ended March 31, 2012 to $547,195. These costs increased primarily because we increased our billing and collections staff, because we outsourced a portion of our collections activity. While expenses are recognized in the period incurred, our fee is recognized upon the collection of the claim on behalf of the physician client, which may occur in future periods. Of the total cost of services sold approximately $400,000 was incurred in connection with worker's compensation claims documentation, billing and collection activities, 80% for wages and benefits, 20% for outsourced collection expenses and shared overhead expenses.

Operating Expenses

Operating expenses for the three months ended March 31, 2013 increased $109,100 to $2,420,718 from $2,311,618 for the three months ended March 31. 2012 but decreased from 168.1% of revenue to 86.1% of revenue due to timing differences in recognizing expenses and revenues. Operating expenses consist of research and development expense, and selling, general and administrative expenses. The increase in operating expenses was primarily due to an increase of $114,848 in equity-based compensation expense. Changes in these items are further described below.

Research and Development Expense

Research and development expenses for the three months ended March 31, 2013 increased $4,816, to $32,080 from $27,264 for the three months ended March 31, 2012. The level of expense varies from year to year depending on the number of clinical trials that we have in progress.

Selling, General and Administrative Expense

Selling, general and administrative expense, including facility expenses, professional fees, marketing, office expenses, and travel and entertainment for the three months March 31, 2013 increased $104,284 to $2,388,638 from $2,284,354 for the three months ended March 31, 2012. The increase in general and administrative expense was primarily due to higher compensation expense including stock-based compensation.

Other Income and Expense

Other income and expense includes interest income and expense, derivative revaluation expense, and investment income. Interest expense increased $13,679 in the three months ended March 31, 2013 from $75,839 in the three months ended March 31, 2012. Interest expense is comprised of interest expense and discounts on notes payable issued with warrants . Derivative revaluation income was $87,979 in the three months ended March 31, 2013 compared with $0 in the 2012 period. This income represents a reduction in derivative liability during the three months ended March 31, 2013 in connection with certain warrants issued in July 2012 that contained ratcheting provisions. The Company has not issued any notes with warrants since July 2012. Of the total of 1,158,981 warrants issued with ratcheting provisions only 95,000 were outstanding as of March 31, 2013.

Current and Deferred Income Taxes

As a result of our assessment that for certain sales' collectability at the time of the sale could not be reasonably assured, these sales did not meet the criteria of a sale for tax purposes. The Company recalculated its 2010 and 2011 tax liabilities and determined that no income taxes were owed for either year. We filed amended tax returns for 2010 in June of 2012. We believed that filing such returns would suspend collection and enforcement efforts by both the IRS and the California Franchise Tax Board ("FTB"). We further understood that filing such returns would likely result in tax audits on the part of both agencies. The IRS commenced its audit in November 2012 and meanwhile has suspended collection and enforcement efforts. The FTB notified the Company by letter dated February 4, 2013 that it will take no action on our amended 2010 California return until the IRS has completed its examination. The FTB has not formally suspended collection and enforcement efforts but has continued to extend its Notice of Suspension deadlines on a quarterly basis pending the outcome of its eventual audit. There can be no assurances that the agencies will accept our amended returns and will not pursue collection and enforcement efforts.

We had no current income tax benefit in the three months ended March 31, 2013 or 2012 respectively. Deferred income tax benefit for the three months ended March 31, 2013 decreased $431,567 or 69.0 %, to $239,523 from $671,390 for the three months ended March 31, 2012.

As of March 31, 2013 the Company had Long-term Deferred Income Tax Assets of $6,722,203. The ultimate realization of deferred tax assets is dependent upon the existence, or generation, of taxable income in the periods when those temporary differences and net operating loss carryovers are deductible. Management considers the scheduled reversal of deferred tax liabilities, taxes paid in carryover years, projected future taxable income, available tax planning strategies, and other factors in making this assessment. Based on available evidence, management believes it is more likely than not that all of the deferred tax assets will be realized. Accordingly, the Company has not yet established a valuation allowance.

Net Loss

Net Loss for the three months ended March 31, 2013 was $270,277 compared to a net loss of $975,917 for the three months ended March 31, 2012. The smaller net loss was primarily due to an increase in revenue noted above and deferred tax benefit.

FINANCIAL CONDITION

Our negative working capital of $9,861,333 as of March 31, 2013 increased $145,424 from our December 31, 2012 negative working capital of $9,715,909. Accounts receivable increased from $353,993 on December 31, 2012 to $519,858 on March 31, 2013 due to an increase in billings to distributors. Our operating losses, investing activities, and repayment of $225,000 in related party loans in the three months ended March 31, 2013 were funded primarily by available cash and an increase in accounts payable and accrued expenses of $475,105.

Unrecognized Accounts Receivable

As of March 31, 2013 we have $34.6 million in unrecognized accounts receivable and unrecognized revenues that potentially will be recorded as revenue in the future as our CCPI subsidiary secures claims payments on behalf of our PMM and Hybrid Customers. Except for collection expenses incurred by CCPI, all expenses associated with these unrecognized accounts receivable including cost of products sold have already been reflected in our financial statements. In addition, due to loss carry forwards we should not incur current tax liabilities for a substantial portion of these unrecognized accounts receivable depending on if and when they are collected. Unrecognized accounts receivable increased by $0.2 million or 1% in the three months ended March 31, 2013 to 34.6 million compared with the $34.4 million as of December 31, 2012. See the " *Business Model* " discussion above and the discussions of " *Revenue Recognition",* and " *Allowance for Doubtful Accounts"* under the *"Critical Accounting Policies"* discussion below.

LIQUIDITY AND CAPITAL RESOURCES

We have historically financed operations through cash flows from operations as well as equity transactions and related party loans. Due to the uncertainty of our ability to meet our current operating and capital expenses, in their report on our audited annual financial statements as of and for the year ended December 31, 2012, our independent auditors included an explanatory paragraph regarding concerns about our ability to continue as a going concern. Our financial statements contain additional note disclosures describing the circumstances that led to this disclosure by our independent auditors. There is substantial doubt about our ability to continue as a going concern as the continuation and expansion of our business is dependent upon obtaining further financing, development of revenue streams with shorter collection times and accelerating collections on our physician managed and hybrid revenue streams. If we are unable to do these things, our liquidity would be adversely affected and we would consider taking a variety of actions, including attempting to reduce fixed costs (for example, further reducing the size of our administrative work force), curtailing or reducing planned capital additions, raising additional equity, borrowing additional funds, refinancing existing indebtedness or taking other actions. There can be no assurance, however, that we will be able to successfully take any of these actions, including adjusting expenses sufficiently or in a timely manner, or raising additional equity, increasing borrowings or completing a refinancing on any terms or on terms that are acceptable to us. Our inability to take these actions as and when necessary would materially adversely affect our liquidity, results of operations and financial condition.

The Company filed its 2010 federal and state tax returns in April 2011 and June 2011, respectively, without including payment for amounts due.

As a result of our assessment that for certain sales' collectability at the time of the sale could not be reasonably assured, these sales did not meet the criteria of a sale for tax purposes. The Company recalculated its 2010 and 2011 tax liabilities and determined that no income taxes were owed for either year. We filed amended tax returns for 2010 in June of 2012. We believed that filing such returns would suspend collection and enforcement efforts by both the IRS and the FTB. We further understood that filing such returns would likely result in tax audits on the part of both agencies. The IRS commenced its audit in November 2012 and meanwhile has suspended collection and enforcement efforts. The FTB notified the Company by letter dated February 4, 2013 that it will take no action on our amended 2010 California return until the IRS has completed its examination. The FTB has not formally suspended collection and enforcement efforts but has continued to extend its Notice of Suspension deadlines on a quarterly basis pending the outcome of its eventual audit. There can be no assurances that the agencies will accept our amended returns and will not pursue collection and enforcement efforts.

Net cash provided by operating activities for the three months ended March 31, 2013 was $24,728 compared to $1,352,099 cash used by operating activities for the three months ended March 31, 2012. Total expenses of Complete Claims Processing, Inc. ("CCPI") for the three months ended March 31, 2013 were $547,195. Of this total approximately $400,000 was incurred in connection with worker's compensation claims documentation, billing and collection activities, 80% for wages and benefits, 20% for outsourced collection expenses and shared overhead expenses. Cash used by investing activities for the three months ended March 31, 2013 was $68,395 compared to cash used of $54,418 for the three months ended March 31, 2013. During the three months ended March 31, 2013 and 2012, we incurred internal software development costs for our *PDRx* claims management and collection system of $57,187 and $26,552 respectively and purchased property and equipment of $11,208 and $27,866 respectively. Historically, capital expenditures have been financed by cash from operating activities, equity transactions and related party loans.

Beginning cash and an increase in accounts payable and accrued expenses funded investing activities and repayment of related party debt in the three months ended March 31, 2013. An increase in PMM and Hybrid customer's collections on the claims filed on their behalf by CCPI benefited cash flows in the three months ended March 31, 2013 and are expected to benefit cash flow in future years. The collection cycle and cash flows may also be significantly affected if our mix of business can be shifted from longer collection cycle business such as workers compensation to markets with shorter collection cycles such as private insurance and Medicare.

OFF-BALANCE SHEET ARRANGEMENTS

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

CONTRACTUAL OBLIGATIONS

The Company leases its operating facility under a lease agreement expiring February 28, 2015 at the rate of $13,900 per month and several smaller storage spaces on a month-to-month basis. The Company, as lessee, is required to pay for all insurance, repairs and maintenance and any increases in real property taxes over the lease period on the operating facility.

CRITICAL ACCOUNTING POLICIES

Principles of consolidation

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

Accounting estimates

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

Revenue Recognition

Under the following revenue models product sales are invoiced upon shipment:

- *Physician Direct Sales Model* (1% of product revenues for the three months ended March 31, 2013): Under this model, a physician purchases products from TMP but does not retain CCPI's services. TMP invoices the physician upon shipment under terms which allow a significant rapid pay discount off AWP for payment within discount terms in accordance with the product purchase agreement. The physicians dispense the product and perform their own claims processing and collections. TMP recognizes revenue under this model on the date of shipment at the gross invoice amount less the anticipated rapid pay discount offered in the product purchase agreement. In the event payment is not received within the term of the agreement, the amount payable for the purchased TMP products reverts to the AWP. In addition, if payment is not received within the agreed-upon term, a late payment fee of up to 20% may be applied to the outstanding balance. The physician is responsible for payment directly to TMP.

- *Distributor Direct Sales Model* (28% of product revenues for the three months ended March 31, 2013): Under this model, a distributor purchases products from TMP and sells those products to a physician and the physician does not retain CCPI's services. TMP invoices distributors upon shipment under terms which include a significant discount off AWP. TMP recognizes revenue under this model on the date of shipment at the net invoice amount. In the event payment is not received within the term of the agreement, the amount payable for the purchased TMP products reverts to the AWP. In addition, if payment is not received within the agreed-upon term, a late payment fee of up to 20% may be applied to the outstanding balance.

Due to substantial uncertainties as to the timing and collectability of revenues derived from our Physician Managed and Hybrid models described below, which can take in excess of five years to collect, we have determined that these revenues did not meet the criteria for recognition in accordance with ASC 605, *Revenue Recognition* . These revenues are therefore required to be recorded when collectability is reasonably assured, which the Company has determined is when the payment is received.

- *Physician Managed Model* (51% of product revenues for the three months ended March 31, 2013): Under this model, a physician purchases products from TMP and retains CCPI's services. TMP invoices physician upon shipment to physician under terms which allow a significant rapid pay discount for payment received within terms in accordance with the product purchase agreement which includes a security interest for TMP in the products and receivables generated by the dispensing of the products. The physician also executes a billing and claims processing services agreement with CCPI for billing and collection services relating to our products (discussed below). CCPI submits a claim for reimbursement on behalf of the physician client. The CCPI fee and product invoice amount are deducted from the reimbursement received by CCPI on behalf of the physician client before the reimbursement is forwarded to the physician client. In the event the physician fails to pay the product invoice within the agreed term, we can deduct the payment due from any of the reimbursements received by us on behalf of the physician client as a result of the security interest we obtained in the products we sold to the physician client and the receivables generated by selling the products in accordance with our agreement. In the event payment is not received within the term of the agreement, the amount payable for the purchased TMP products reverts to the AWP. In addition, if payment is not received within the agreed-upon term, a late payment fee of up to 20% is applied to the outstanding balance. However, since we are in the early stage of our business, as a courtesy to our physician clients, our general practice has been to extend the rapid pay discount beyond the initial term of the invoice until the invoice is paid and not to apply a

late payment fee to the outstanding balance. TMP recognizes revenue under this model on the date payment is received.

- *Hybrid Model* (20% of product revenues for the three months ended March 31, 2013): Under this model, a distributor purchases products from TMP and sells those products to a physician and the physician retains CCPI's services. TMP invoices distributors upon shipment under terms which allow a significant rapid pay discount for payment received within terms in accordance with the product purchase agreements. The physician client of the distributor executes a billing and claims processing services agreement with CCPI for billing and collection services (discussed below). The distributor product invoice and the CCPI fee are deducted from the reimbursement received by CCPI on behalf of the physician client before the reimbursement is forwarded to the distributor for further delivery to their physician clients. In the event payment is not received within the term of the agreement, the amount payable for the purchased TMP products reverts to the AWP. In addition, if payment is not received within the agreed-upon term, a late payment fee of up to 20% is applied to the outstanding balance. However, since we are in the early stage of our business, as a courtesy to our physician clients, our general practice has been to extend the rapid pay discount beyond the initial term of the invoice until the invoice is paid and not to apply a late payment fee to the outstanding balance. TMP recognizes revenue under this model on the date payment is received.

Allowance for doubtful accounts

Trade accounts receivable are stated at the amount management expects to collect from outstanding balances. Currently accounts receivable are comprised totally of amounts due from our distributor customers and receivables for our PDRx equipment. The carrying amounts of accounts receivable are reduced by an allowance for doubtful accounts that reflects management's best estimate of the amounts that will not be collected. We individually reviews all accounts receivable balances and based on an assessment of current creditworthiness, estimates the portion, if any, of the balance that will not be collected. We provide for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that is still outstanding after we have used reasonable collection efforts will be written off. Based on an assessment as December 31, 2012 of the collectability of invoices 120 days or more past their due dates we established an allowance for doubtful accounts of $215,346. We did not change this allowance during the three months ended March 31, 2013.

Under the Company's physician managed model and hybrid model, CCPI performs billing and collection services on behalf of the physician client and deducts the CCPI fee and product invoice amount from the reimbursement received by CCPI on behalf of the physician client before the reimbursement is forwarded to the physician client. Extended collection periods are typical in the workers compensation industry with payment extending from 45 days to in excess of five years.

Approximately 25% of workers' compensation claims are settled within one year of claim billed date and approximately 50% cumulatively are settled within four years of claim billed date. Due to the relatively short operating history of the Company in regard to the collection of workers' compensation claims, we cannot predict how long it will take to collect claims outstanding in excess of four years. Furthermore, due to the uncertainty as to the timing and the amount of claims settlement and collections we do not recognize revenue until cash is received. For Workers' Compensation and Hybrid Model customers cash received and revenue recognized in any given year is comprised of collections on claims from that year and all prior years. Approximately two-thirds of cash collected and revenue recognized in a given year for Workers' Compensation and Hybrid Model customers is from claims filed in that year.

The physician remains personally liable for purchases of product from TMP and, during this long collection cycle, TMP retains a security interest in all products sold to the physician along with the claims receivable that result from sales of the products. CCPI maintains an accounting of all managed accounts receivable on behalf of the physician and regularly reports to the physician. As described above, due to uncertainties as to the timing and collectability of revenues derived from these models, revenue is recorded when payment is received therefore no allowance for doubtful accounts is necessary.

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

Inventory valuation

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

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 impairment indicators existed at December 31, 2012 or March 31, 2013 so no long-lived asset impairment was recorded for the year ended December 31, 2012 or the three months ended March 31, 2013.

Intangible assets :

Intangible assets with finite lives, including patents and internally developed software (primarily the Company's PDRx Software), are stated at cost and are amortized over their useful lives. Patents are amortized on a straight line basis over their statutory lives, usually fifteen to twenty years. Internally developed software is amortized over three to five years. Intangible assets with indefinite lives are tested annually for impairment, during the fiscal fourth quarter and between annual periods, and more often when events indicate that an impairment may exist. If impairment indicators exist the intangible assets are written down to fair value as required. No impairment indicators existed at December 31, 2012 or March 31, 2013 so no intangible asset impairment was recorded for the year ended December 31, 2012 or the three months ended March 31, 2013.

Fair value of financial instruments

The Company's financial instruments are accounts receivable, accounts payable, notes payable and warrants. The recorded values of accounts receivable and accounts payable approximate their values based on their short term nature. Notes payable are recorded at their issue value or if warrants are attached at their issue value less the value of the warrant. Warrants issued with ratcheting provisions are revalued each quarter based on changes in the market value of our common stock.

Income taxes

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

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

Stock-Based Compensation

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

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

Income Per Share

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

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

	March 31, 2013	March 31, 2012
Option, Warrants and Convertible Debt shares excluded	882,538	941,.357

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 on our behalf, we may prepay fees for services at the initiation of the contract. We record the prepayment as a prepaid asset and amortize the asset into research and development expense over the period of time the contracted research and development services are performed. Most contract research agreements include a ten year records retention and maintenance requirement. Typically, we expense 50% of the contract amount upon completion of the clinical trials and 50% over the remainder of the record retention requirements under the contract research organization contract.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

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

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures.

The Company's management, including our Chief Executive Officer and Acting Chief Financial Officer, reassessed the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of March 31, 2013 and has subsequently determined that our disclosure controls and procedures were not effective as of March 31, 2013 due to certain material weaknesses as described in our Form 10-K, as filed on April 1, 2013. As a result of such material weaknesses, our disclosure controls and procedures were not effective. Our management has worked, and will continue to work to remedy the above material weaknesses in our disclosure controls and procedures.

Limitations on the Effectiveness of Disclosure Controls.

Readers are cautioned that our management does not expect that our disclosure controls and procedures or our internal control over financial reporting will necessarily prevent all fraud and material error. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls.

Changes in Internal Control over Financial Reporting.

Management, with the participation of our Chief Executive Officer and Chief Financial Officer, has assessed whether any changes in our internal control over financial reporting that occurred during the quarter ended March 31, 2013 have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Significant changes were and are being implemented and tested during the latter half of fiscal 2012 through the date of this report to remediate our material weaknesses in internal control over financial reporting. Management believes those measures we have implemented to remediate the material weaknesses in internal control over financial reporting have had a favorable impact on our internal control over financial reporting. Changes in our internal control over financial reporting through the date of this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting are:

1. In the first quarter of 2013, the Company instituted procedures to reconcile the PTL December 31, 2012 unrecognized accounts receivable subsidiary ledger to the general ledger. Going-forward, this process will continue on a quarterly basis.

2. Procedures will be established to timely reconcile the subsidiary ledger to the CCPI claims listing. We are in the process of actively addressing and remediating this material weakness.

3. In the first quarter of 2013, the Company instituted procedures to ensure the correct application of assumptions used in the Black-Scholes model while calculating and measuring changes in the value of equity instruments. Going-forward, this process will continue.

Except as detailed above, there have not been any changes in the Company's internal controls over financial reporting that occurred during the Company's three months ended March 31, 2013 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

On or about January 31, 2011, Steven B. Warnecke ("Warnecke") was hired as the Company's Chief Financial Officer (CFO) and resigned less than five (5) months later. At the time he resigned, he cited personal reasons for his resignation. He subsequently claimed that the Company breached its Employment Agreement with him. Warnecke has commenced an arbitration proceeding before JAMS, which is currently pending. ("Arbitration")

Warnecke is seeking, among other things, restitution of alleged unpaid salary and other alleged monies owed and the vesting of certain options to purchase shares of the Company's common stock. The Company disputes these allegations, given that Warnecke resigned from his position. The Company contends that Warnecke has been paid all undisputed wages and benefits owed as of the date of termination, is not entitled to options that did not vest prior to his resignation and is owed nothing further by the Company. The Arbitration is currently pending before JAMS.

The parties have exchanged written discovery. Discovery is ongoing. The Company intends to vigorously dispute the claims made by Warnecke, while pursuing reasonable efforts to achieve a resolution of this matter. At this time it is not possible for the Company to predict the ultimate outcome or any definitive estimate of the amount of loss, if any.

Legal costs to date of of approximately $133,000 related to the above claim have been expensed as incurred.

Item 1A. Risk Factors.

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

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits.

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

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

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized on the 15th day of May, 2013.

TARGETED MEDICAL PHARMA, INC.

By: /s/ William E. Shell, MD
William E. Shell, MD
Chief Executive Officer

EXHIBIT INDEX

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Exhibit 31.1

CERTIFICATION

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

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

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

1. I have reviewed this quarterly report on Form 10-Q of Targeted Medical Pharma, Inc. (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 15, 2013

Signature: /s/ William E. Shell, MD

William E. Shell, MD
Principal Executive Officer and Principal Financial Officer

Exhibit 32.1

CERTIFICATION

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

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

The Quarterly Report on Form 10-Q for the quarter ended March 31, 2013 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 15, 2013

By: /s/ William E. Shell, MD
William E. Shell, MD
Principal Executive Officer and Principal Financial Officer