# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

# **FORM 10-Q**

(Mark One	<del>e</del> )				
[X]	QUARTERLY REPORT P	URSUANT TO SECTION 13 OI	R 15(d) OF THE SECURITIES EXCH.	ANGE ACT OF 1934	
	For the quarterly period en	nded March 31, 2015.			
			Or		
[]	TRANSITION REPORT P	URSUANT TO SECTION 13 OF	R 15(d) OF THE SECURITIES EXCHA	ANGE ACT OF 1934	
	For the transition period fr	rom to			
		Commissi	ion File Number <u>000-53071</u>		
			EDICAL PHARMA egistrant as specified in its charter)	, INC.	
(S	<u>Delaw</u> ate or other jurisdiction of in	ware ncorporation or organization)	(I.R.S	20-5863618 5. Employer Identification No.)	
	2980 Beverly Glen Circle, (Address of principal			<u>90077</u> (Zip Code)	
		(Registrant's telep	(310) 474-9809 phone number, including area code)		
		(Former name, former address a	${ m N/A} \over  m nd$ former fiscal year, if changed since	e last report)	
during the		or such shorter period that the	ts required to be filed by Section 13 e registrant was required to file such		
be submit	ted and posted pursuant to R		cally and posted on its corporate Web 32.405 of this chapter) during the pre		
			ler, an accelerated filer, a non-accelera r reporting company" in Rule 12b-2 o		npany. See the
Large	accelerated filer [ ]	Accelerated filer [ ]	Non-accelerated filer [ ] (Do not check if a smaller reporting		mpany [X]
Indicate b	y check mark whether the reg	gistrant is a shell company (as d	efined in Rule 12b-2 of the Exchange	Act). Yes [ ] No [X]	
		Shares outstanding	g of the Registrant's common stock:		
	Clas	s	Ou	tstanding as of May 14, 2014	
	Common stock, \$0	0.001 par value		26,768,756	

# TARGETED MEDICAL PHARMA, INC.

# FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2015

# TABLE OF CONTENTS

		Page_
PART I –	FINANCIAL INFORMATION	
ITEM 1.	Financial Statements	1
	Condensed Consolidated Balance Sheets	1
	Condensed Consolidated Statements of Operations	2
	Condensed Consolidated Statements of Cash Flows	3
	Notes to Condensed Consolidated Financial Statements	4
ITEM 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	20
ITEM 3.	Quantitative and Qualitative Disclosures About Market Risk	28
ITEM 4.	Controls and Procedures	28
PART II-	- OTHER INFORMATION	
ITEM 1.	<u>Legal Proceedings</u>	28
ITEM 1A	<u>Risk Factors</u>	29
ITEM 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	29
ITEM 3.	Defaults Upon Senior Securities	29
ITEM 4.	Mine Safety Disclosures	29
ITEM 5.	Other Information	29
ITEM 6.	<u>Exhibits</u>	29
<b>SIGNATU</b>	<u>JRES</u>	30

# PART I – FINANCIAL INFORMATION

# Item 1. Financial Statements.

# TARGETED MEDICAL PHARMA, INC. AND SUBSIDIARY

Condensed Consolidated Balance Sheets (Unaudited)						
	March 31, 2015			December 31, 2014		
ASSETS		<u>,                                      </u>		, and the second		
CURRENT ASSETS						
Cash	\$	223,187	\$	11,739		
Accounts receivable, net		159,224		203,348		
Inventories		85,478		127,183		
Other current assets		429,780		191,689		
TOTAL CURRENT ASSETS		897,669		533,959		
Property and equipment, net		91,265		107,185		
Intangible assets, net		1,811,342		1,859,152		
TOTAL ASSETS	\$	2.800,276	\$	2,500,296		
	<u>*</u>	_,,,,,,,,,	<u>*</u>	_,		
LIABILITIES AND STOCKHOLDERS' DEFICIT						
CURRENT LIABILITIES						
Accounts payable	\$	2,114,477	\$	1,460,352		
Accrued liabilities		6,814,550		7,273,980		
Notes payable, current portion - related parties		2,504,411		2,504,411		
Notes payable, current portion, net		1,757,161		1,092,762		
Derivative liability		137,294		18,075		
TOTAL CURRENT LIABILITIES		13,327,893		12,349,580		
Notes payable, less current portion - related parties		530,771		_		
Notes payable, less current portion, net		561,908		122,290		
TOTAL LIABILITIES		14,420,572		12,471,870		
COMMITMENTS AND CONTINGENCIES (SEE NOTE 10)						
STOCKHOLDERS' 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; 126,768,756 shares issued and						
outstanding as of March 31, 2015 and December 31, 2014		26,769		26,769		
Additional paid-in capital		16,948,760		16,919,073		
Accumulated deficit		(28,595,825)		(26,917,416)		
TOTAL STOCKHOLDERS' DEFICIT		(11,620,296)		(9,971,574)		
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$	2,800,276	\$	2,500,296		

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

# TARGETED MEDICAL PHARMA, INC. AND SUBSIDIARY

# **Condensed Consolidated Statements of Operations (Unaudited)**

	Three Mon 2015	ths Ended March 31, 2014
REVENUES		_
Product revenue	\$ 935,03	53 \$ 1,633,280
Service revenue	132,83	35 167,623
Total revenue	1,067,88	1,800,903
COST OF SALES		
Cost of product sold	121,83	
Cost of services sold	428,9	11 420,215
Total cost of sales	550,70	559,534
Gross profit	517,12	1,241,369
OPERATING EXPENSES		
Research and development	7,10	04 58,483
Selling, general and administrative	1,784,78	89 1,893,672
Total operating expenses	1,791,89	93 1,952,155
Loss from operations	(1,274,7	72) (710,786)
OTHER INCOME (EXPENSES)		
Interest income (expense)	(403,64	47) (259,200)
Change in fair value of warrant liability		10 (4,484)
Total other income (expenses)	(403,63	(263,684)
Loss before income taxes	(1,678,40	09) (974,470)
Income tax expense		
NET LOSS	\$ (1,678,40	09) \$ (974,470)
Basic and diluted net loss per common share	\$ (0.	06) \$ (0.04)
Basic and diluted weighted average common shares outstanding	26,768,7:	56 25,902,551
	20,700,7	25,5 52,5 51

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

# TARGETED MEDICAL PHARMA, INC. AND SUBSIDIARY

# **Condensed Consolidated Statements of Cash Flows (Unaudited)**

	Three Months E	nded March 31, 2014		
Cash flows from operating activities:				
Net loss	\$ (1,678,409)	\$	(974,470)	
Adjustments to reconcile net loss to net cash used in operating activities:	, , , , ,		, , ,	
Depreciation	15,920		32,583	
Amortization	51,810		72,413	
Amortization of debt discount	77,127		115,690	
Stock-based compensation to employees and directors	8,663		12,451	
Stock-based compensation to consultants	21,024		215,800	
Change in fair value of warrant derivative liability	(10)		4,483	
Changes in operating assets and liabilities:				
Accounts receivable	44,124		(93,523)	
Inventories	41,705		117,108	
Other current assets	(238,091)		(109,018)	
Accounts payable	654,125		41,595	
Accrued liabilities	(459,430)		488,827	
1.001.000 1.001.111.00	(137,130)		100,027	
Net cash used in operating activities	 (1,461,442)		(76,061)	
Cash flows from investing activities:				
Acquisition of intangible assets	(4,000)		(880)	
Acquisition of intangiote assets	 (4,000)		(880)	
Net cash used in investing activities	 (4,000)		(880)	
Cash flows from financing activities:				
Proceeds from issuance of common stock	_		240,000	
Proceeds from notes payable - related parties	650,000			
Payments on notes payable - related parties	(48,110)		(154,180)	
Proceeds from notes payable	1,200,000		(10 1,100)	
Payments on notes payable	(125,000)		(408,099)	
Taymonts on notes payable	 (123,000)	_	(400,077)	
Net cash provided by (used in) financing activities	 1,676,890		(322,279)	
Net increase (decrease) in cash	211,448		(399,220)	
Cash at beginning of period	 11,739		491,806	
Cash at end of period	\$ 223,187	\$	92,586	
Supplemental disclosures of cash flow information:				
Cash paid during the period for interest	\$ 14,429	\$	142,934	
Non cash investing and financing activities:				
Amortization of note discount	\$ 77,127	\$	115,690	
Note discount from embedded conversion feature in connection with debenture	\$ 119,229	\$		

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

#### 1. DESCRIPTION OF BUSINESS

Targeted Medical Pharma, Inc. (the "Company" or "TMP"), also doing business as Physician Therapeutics ("PTL"), is a specialty pharmaceutical company that develops and commercializes amino acid based medications. On July 30, 2007, the Company formed Complete Claims Processing, Inc. ("CCPI"), a wholly owned subsidiary which provides specialty billing and collection services for our products dispensed by physician clients and to physician clients of some of our distributors.

#### **Segment Information:**

The Company did not recognize revenue outside of the United States during the three months ended March 31, 2015 and 2014. The Company has two principal business operations: (i) the distribution of proprietary medical foods and (ii) billing and collection services relating to our products. The Company's operations are organized into two reportable segments during the three months ended March 31, 2015 and 2014.

- TMP: The Company distributes its proprietary medical foods and generic pharmaceuticals as PTL. TMP develops and distributes amino acid based therapeutic products and distributes pharmaceutical products from other manufacturers through employed sales representatives, independent distributors and pharmacies. TMP also performs the administrative, regulatory compliance, sales and marketing functions of the corporation, owns the corporation's intellectual property, is responsible for research and development relating to medical food products and development of software used for the dispensation and billing of medical foods and generic products. The TMP segment also manages contracts and chargebacks.
- CCPI: This segment provides point-of-care dispensing solutions and billing and collections services.

Results for the three months ended March 31, 2015 and 2014, are reflected in the table below:

### For the three months ended March 31,

2015 (Unaudited)	Total		TMP		ССРІ	
Gross sales	\$	1,067,888	\$	935,053	\$	132,835
Gross profit	\$	517,121	\$	813,197	\$	(296,076)
Net loss	\$	(1,678,409)	\$	(1,382,333)	\$	(296,076)
Total assets	\$	2,800,276	\$	2,769,481	\$	30,795
2014 (Unaudited)						
Gross sales	\$	1,800,903	\$	1,633,280	\$	167,623
Gross profit	\$	1,241,369	\$	1,493,961	\$	(252,592)
Net loss	\$	(974,470)	\$	(721,878)	\$	(252,592)
Total assets	\$	4,579,850	\$	4,540,622	\$	39,228

# 2. LIQUIDITY AND 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 incurred recurring losses and reported losses for the three months ended March 31, 2015, totaling \$1,678,409 as well as an accumulated deficit as of March 31, 2015, amounting to \$28,595,825. As a result of our continued losses, at March 31, 2015, the Company's current liabilities significantly exceed current assets, resulting in negative working capital of \$12,430,224. Further, the Company does not have adequate cash to cover projected operating costs for the next 12 months. As of March 31, 2015, the Company also owes approximately \$400,000 to the Internal Revenue Service ("IRS") and the California Franchise Tax Board ("FTB") for unpaid payroll taxes. These factors raise substantial doubt about the ability of the Company to continue as a going concern. In order to ensure the continued viability of the Company, either future equity financings must be obtained or profitable operations must be achieved in order to repay the existing short-term debt and to provide a sufficient source of operating capital. No assurances can be made that the Company will be successful obtaining the equity financing needed to continue to fund its operations, or that the Company will achieve profitable operations and positive cash flow. The consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

### 3. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of Presentation**

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Regulation S-X and do not include all the information and disclosures required by accounting principles generally accepted in the United States of America. The Company has made estimates and judgments affecting the amounts reported in our consolidated financial statements and the accompanying notes. The actual results experienced by the Company may differ materially from our estimates. The consolidated financial information is unaudited but reflects all normal adjustments that are, in the opinion of management, necessary to provide a fair statement of results for the interim periods presented. The consolidated balance sheet as of December 31, 2014 was derived from the Company's audited financial statements. The consolidated financial statements should be read in conjunction with the consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2014. Results of the three months ended March 31, 2015, are not necessarily indicative of the results to be expected for the full year ending December 31, 2015.

#### **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.

# **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 value. As of March 31, 2015 and 2014, the Company had no cash equivalents.

# **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. The Company's critical accounting policies that involve significant judgment and estimates include revenue recognition, share based compensation, recoverability of intangibles, valuation of derivatives, and valuation of deferred income taxes. Actual results could differ from those estimates.

# Revenue Recognition

TMP markets medical foods and generic 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 five models: Physician Direct Sales, Distributor Direct Sales, Physician Managed, Hybrid Models, and the Cambridge Medical Funding Group WC Receivable Purchase Assignment Model.

Under the following revenue models, product sales are invoiced upon shipment. However, revenues are not recorded until collectability is reasonably assured, which the Company has determined is when the payment is received:

Physician Direct Sales Model (11% of product revenues for the three months ended March 31, 2015): 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 due from the physician 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 (25% of product revenues for the three months ended March 31, 2015): Under this model, a distributor purchases products from TMP, 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.

Physician Managed Model (23% of product revenues for the three months ended March 31, 2015): Under this model, a physician purchases products from TMP and retains CCPI's services. TMP invoices the physician upon shipment 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 agreed-upon term, a late payment fee of up to 20% may be applied to the outstanding balance.

Hybrid Model (15% of product revenues for the three months ended March 31, 2015): 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% may be applied to the outstanding balance.

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 from our Physician Managed and Hybrid models beyond the initial term of the invoice until the invoice is paid and not to apply a late payment fee to the outstanding balance.

Due to substantial uncertainties as to the timing and collectability of revenues derived from our Physician Managed and Hybrid models, which can take in excess of five years to collect, we have determined that these revenues do not meet the criteria for recognition, in accordance with The Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic No. ASC 605, Revenue Recognition ("ASC 605"), upon shipment. These revenues are recorded when collectability is reasonably assured, which the Company has determined is when the payment is received, which is upon collection of the claim.

The Company has entered into an agreement with Cambridge Medical Funding Group, LLC ("CMFG") related to California Workers' Compensation ("WC") benefit claims. Under this arrangement, we have determined that pursuant to FASB ASC Topic No. 860, Transfers of Financial Assets and ASC 605 we have met the criteria for revenue recognition on the date that payment is due from CMFG, which approximates the product shipment date.

CMFG #1 – WC Receivable Purchase Assignment Model ("CMFG #1") (26% of product revenues for the three months ended March 31, 2015): Under this model, physicians who purchase products from TMP under the Company's Physician Managed Model will have the option to assign their accounts receivables (primarily those accounts receivables with dates of service starting with the year 2013) from California WC benefit claims to CMFG, at a discounted rate. Each agreement is executed among CMFG, TMP, and each individual physician, and serves as a master agreement for all assigned receivables by the physician to CMFG. Since these accounts receivable originated from the Company's Physician Managed Model, CCPI's services are also retained. The physician's fees and financial obligations due to TMP, for the purchase of TMP product and use of CCPI's services, are satisfied directly by CMFG, usually within seven (7) days of transmission of the accounts receivable to CMFG. CMFG has agreed to pay an amount equal to 20% of eligible assigned accounts receivable as an advance payment. CMFG makes this payment directly to TMP, on behalf of the physician. TMP applies this payment to the physician's financial obligations due to CCPI for the physician's use of the Company's medical billing and claims processing services, and the physician's financial obligation due to TMP for the cost of the product. The Company recognizes revenue on the date that payment is due from CMFG. Under CMFG #1, the Company only receives the 20% advance payment, where such payment is without recourse or future obligation for TMP to repay the 20% advanced amount back to CMFG or the physician. Actual amounts collected on the assigned accounts receivable are shared between CMFG and the physician, where the first 37% of amounts collected are disbursed to CMFG and additional amounts collected are shared at a ratio of 75:25, where 75% is disbursed to the physician and 25% is disbursed to CMFG.

During the three months ended March 31, 2015 and 2014, the Company issued billings to Physician Managed and Hybrid model customers aggregating \$0.7 million and \$0.9 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 all billings, aggregating \$121,856 and \$139,319, respectively, were expensed in the accompanying consolidated financial statements at the time of such billings. In accordance with the Company's revenue recognition policy, the Company recognized revenues from certain of these customers when cash was collected, aggregating \$351,897 and \$667,855 during the three months ended March 31, 2015 and 2014, respectively. As of March 31, 2015, we had approximately \$7.2 million in unrecorded accounts receivable 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 CMFG pursuant to CMFG #1 are excluded from unrecorded accounts receivable.

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. The billing and claims processing agreement includes a service fee that is based upon 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 claims are paid. Under CMFG#1 the Company recognizes revenue related to CCPI's services upon receipt of the 20% advance payment from CMFG.

No returns of products are allowed except for products damaged in shipment, which historically have been insignificant.

The rapid pay discounts to the AWP amount offered to the physician or distributor 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 various models, 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 AWP.

#### Allowance for Doubtful Accounts

Trade accounts receivable are stated at the amount management expects to collect from outstanding balances. Currently, accounts receivable are comprised of amounts due from our CMFG #1, distributor customers and other miscellaneous receivables. 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. The Company individually reviews all accounts receivable balances and based upon an assessment of current creditworthiness, estimates the portion, if any, of the balance that will not be collected. An allowance is recorded for those accounts that are determined to likely be uncollectible through a charge to earnings and a credit to a valuation allowance. Balances that remain outstanding after we have used reasonable collection efforts will be written off. Based on an assessment as of March 31, 2015 and December 31, 2014, of the collectability of invoices, we established an allowance for doubtful accounts of \$55,773.

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 TMP retains a security interest in all products sold to the physician, and the resulting claims receivable from sales of the products. CCPI maintains an accounting of all managed accounts receivable on behalf of 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, there is no related accounts receivable, and therefore no allowance for doubtful accounts is necessary.

# **Inventory Valuation**

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

# **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 depreciated 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 March 31, 2015 and December 31, 2014, so no long-lived asset impairment was recorded.

### **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. The Company has one intangible asset with an indefinite life which is a domain name for medical foods. Taking into account the cyclical and non-recurring events that affected operations, the Company determined that no impairment indicators existed at March 31, 2015, or December 31, 2014, so no intangible asset impairment was recorded for the three months ended March 31, 2015, or the year ended December 31, 2014.

#### Fair Value of Financial Instruments

The Company's financial instruments are accounts receivable, accounts payable, notes payable, and warrant 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 proportionate value of the warrant. Warrants issued with ratcheting provisions are classified as derivative liabilities and are revalued using the Black-Scholes model each quarter based on changes in the market value of our common stock and unobservable level 3 inputs.

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**

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 ("ASC 815-40"). Pursuant to ASC 815-40, an evaluation of specifically identified conditions is made to determine whether the fair value of warrants issued is required to be classified as a derivative liability instead of as equity. The estimated fair value of warrants classified as derivative liabilities is determined using the Black-Scholes option pricing model. The model utilizes Level 3 unobservable inputs to calculate the fair value of the warrants at each reporting period. The Company determined that using an alternative valuation model such as a Binomial-Lattice model would result in minimal differences. The fair value of warrants classified as derivative liabilities is adjusted for changes in fair value at each reporting period, and the corresponding non-cash gain or loss is recorded as other income or expense in the consolidated statement of operations. As of March 31, 2015, 95,000 warrants were classified as derivative liabilities. Each reporting period the warrants are re-valued and adjusted through the caption "change in fair value of warrant liability" on the consolidated statements of operations. The Company's remaining warrants are recorded to additional paid in capital as equity instruments.

# **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. U.S. GAAP also requires management to evaluate tax positions taken by the Company and recognize a liability if the Company has taken uncertain tax positions taken by the Company and has concluded that as of March 31, 2015, there are no uncertain tax positions taken, or expected to be taken, that would require recognition of a liability that would require disclosure in the financial statements.

The Company's effective tax rates were 0% for the three months ended March 31, 2015 and 2014. During the quarter ended June 30, 2013, the Company decided to fully reserve its net deferred income tax assets by taking a full valuation allowance against these assets. As a result of this decision, during the three months ended March 31, 2015 and 2014, the Company did not recognize any income tax benefit as a result of its net loss. Thus, during the three months ended March 31, 2015 and 2014, the effective tax rate differed from the U.S. federal statutory rate due to the change in the valuation allowance. The table below shows the balances for the deferred income tax assets and liabilities as of the dates indicated.

Mai	March 31, 2015		cember 31, 2014
\$	1,604,903	\$	1,517,270
	(1,604,903)		(1,517,270)
			_
	8,803,644		8,303,462
	(1,024,649)		(1,074,928)
	7,778,995		7,228,534
	(7,778,995)		(7,228,534)
\$		\$	<u> </u>
	Mar \$	\$ 1,604,903 (1,604,903) 	\$ 1,604,903 \$ (1,604,903) \$ (1,604,903) \$ (1,604,903) \$ (1,024,644) \$ (1,024,649) \$ (7,778,995) \$ (7,778,995)

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 not be realized. Accordingly, the Company has maintained a valuation allowance for the current year.

At March 31, 2015, the Company had total domestic Federal and state net operating loss carryovers of approximately \$9,149,000 and \$11,942,000, respectively. Federal and state net operating loss carryovers expire at various dates between 2021 and 2032.

Under the Tax Reform Act of 1986, as amended, the amounts of and benefits from net operating loss carryovers and research and development credits may be impaired or limited in certain circumstances. Events which cause limitations in the amount of net operating losses that the Company may utilize in any one year include, but are not limited to, a cumulative ownership change of more than 50%, as defined, over a three year period. The Company does not believe that such an ownership change has occurred.

### **Stock-Based Compensation**

The Company accounts for stock option awards in accordance with FASB ASC Topic No. 718, Compensation-Stock Compensation. Under FASB ASC Topic No. 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 FASB ASC Topic No. 505-50, *Equity Based Payments to Non-Employees*. 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.

# Loss per Common Share

The Company utilizes FASB ASC Topic No. 260, *Earnings per Share*. Basic loss per share is computed by dividing loss available to common shareholders by the weighted-average number of common shares outstanding. Diluted loss per share is computed similar to basic 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. Diluted loss per common share reflects the potential dilution that could occur if convertible debentures, options and warrants were to be exercised or converted or otherwise resulted in the issuance of common stock that then shared in the earnings of the entity.

Since the effects of outstanding options, warrants and the conversion of convertible debt are anti-dilutive in all periods presented, shares of common stock underlying these instruments have been excluded from the computation of loss per common share.

The following sets forth the number of shares of common stock underlying outstanding options, warrants and convertible debt as of March 31, 2015 and 2014:

	March 3	1,
	2015	2014
Warrants	4,699,372	4,256,465
Stock options	2,420,241	2,424,241
Convertible debentures	2,166,667	=
	9,286,280	6,680,706

# 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. Typically, we expensed 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.

#### Reclassifications

Certain prior year amounts have been reclassified for comparative purposes to conform to the current-year financial statement presentation. These reclassifications had no effect on previously reported results of operations.

# **Recent Accounting Pronouncements**

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09 "Revenue from Contracts with Customers (Topic 606)" which supersedes the revenue recognition requirements in Accounting Standards Codification ("ASC") 605, Revenue Recognition. The purpose of ASU 2014-09 is to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP and International Financial Reporting Standards. The amendments (i) remove inconsistencies and weaknesses in revenue requirements, (ii) provide a more robust framework for addressing revenue issues, (iii) improve comparability of revenue recognition across entities, industries, jurisdictions, and capital markets, (iv) provide more useful information to users of financial statements through improved disclosure requirements, and (v) simplify the preparation of financial statements by reducing the number of requirements to which an entity must refer. The new revenue recognition standard requires entities to recognize revenue in a way that reflects the transfer of promised goods or services to customers in an amount based on the consideration to which the entity expects to be entitled to in exchange for those goods or services. ASU 2014-09 is effective for interim and annual reporting periods beginning after December 15, 2016 and early adoption is not permitted. The amendments can be applied retrospectively to each prior reporting period or retrospectively with the cumulative effect of initially applying this update recognized at the date of initial application. The Company has not determined what transition method it will use and is currently assessing the impact that this guidance may have on its consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15 "Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern." ASU 2014-15 is intended to define management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. ASU 2014-15 is effective for annual periods ending after December 15, 2016, and interim periods within annual periods beginning after December 15, 2016. Early application is permitted. The adoption of this standard is not expected to have a material effect on the Company's operating results or financial condition.

# 4. STOCK-BASED COMPENSATION

In January 2011 the Company's stockholders approved the Company's 2011 Stock Incentive Plan (the "Plan"), which provided for the issuance of a maximum of three million (3,000,000) shares of the Company's common stock to be offered to the Company's directors, officers, employees, and consultants. On August 26, 2013, the Company's Board of Directors approved a two million (2,000,000) share increase in the number of shares issuable under the Plan, which was approved by the Company's stockholders on June 6, 2014. Options granted under the Plan have an exercise price equal to or greater than the fair value of the underlying common stock at the date of grant and become exercisable based on a vesting schedule determined at the date of grant. The options expire between 5 and 10 years from the date of grant. Restricted stock awards granted under the Plan are subject to a vesting period determined at the date of grant.

During the three months ended March 31, 2015, the Company had stock-based compensation expense of \$8,663, related to issuances to the Company's employees and directors, included in reported net loss. During the three months ended March 31, 2014, the Company had stock-based compensation expense included in reported net loss of \$12,451. The total amount of stock-based compensation to employees and directors for the three months ended March 31, 2015 and 2014, related solely to the issuance of stock options.

A summary of stock option activity for the three months ended March 31, 2015 and year ended December 31, 2014, is presented below:

	_	Outstanding Options						
	Shares Available for Grant	Number of Shares	Weighted Average Weighted Remaining		Average Remaining Contractual	Aggregate Intrinsic Value		
December 31, 2013	1,792,697	2,794,841	\$	1.89	7.03	\$	0	
Cancellations and forfeitures	373,800	(373,800)	\$	2.62				
Restricted stock awards	(75,000)							
December 31, 2014	2,091,497	2,421,041	\$	1.77	5.88	\$	0	
Cancellations and forfeitures	800	(800)	\$	1.50				
March 31, 2015	2,092,297	2,420,241	\$	1.77	5.63	\$	0	

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (i.e., the difference between our closing stock price on the respective date and the exercise price, times the number of shares) that would have been received by the option holders had all option holders exercised their options. There have not been any options exercised during the three months ended March 31, 2015 and year ended December 31, 2014.

All options that the Company grants are granted at the per share fair value on the grant date. Vesting of options differs based on the terms of each option. The Company 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 an active public market for the Company's shares. Accordingly, the fair value of the underlying options 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 as calculated using the simplified method. 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 Company utilized the Black-Scholes option pricing model. The Company did not issue any options during the three months ended March 31, 2015 or the year ended December 31, 2014.

A summary of the changes in the Company's nonvested options during the three months ended March 31, 2015, is as follows:

	Number of Non-vested Options	Weighted Average Fair Value at Grant Date	_	Intrinsic Value
Non-vested at December 31, 2014	170,833	\$ 0.57	\$	_
Vested in three months ended March 31, 2015	25,000	\$ 0.93	\$	_
Non-vested at March 31, 2015	145,833	\$ 0.51	\$	_
Exercisable at March 31, 2015	2,274,408	\$ 0.93	\$	_
Outstanding at March 31, 2015	2,420,241	\$ 0.91	\$	_

As of March 31, 2015, total unrecognized compensation cost related to unvested stock options was \$53,913. The cost is expected to be recognized over a weighted average period of 2.16 years.

# 5. WARRANTS

During the year ended December 31, 2014, the Company issued a total of 662,907 warrants, at an average exercise price of \$0.35 per share. Included in these issuances are 162,907 warrants issued to William E. Shell, M.D., the Company's former Chief Executive Officer, in connection with the July 24, 2014 loan to the Company (See Note 7), and 500,000 warrants to several consultants for financial advisory and investor relations services. During the three months ended March 31, 2015, the Company did not issue any warrants and cancelled 220,000 warrants, with an average exercise price of \$0.42 per share.

The Company utilized the Black-Scholes option pricing model and the assumptions used for the year ended December 31, 2014 are as follows:

	Year Ei December 3	
Weighted average risk free interest rate	1.67	7% - 1.72%
Weighted average life (in years)		5.0
Volatility		67%
Expected dividend yield		0%
Weighted average grant-date fair value per share of options granted	\$	0.67
14		

The following table summarizes information about common stock warrants outstanding at March 31, 2015:

	Exercisable					
		Weighted				
		Average	Weighted			Weighted
		Remaining	Average			Average
Exercise	Number	Contractual	Exercise	Number		Exercise
Price	Price Outstanding Life (Years)		Price	Exercisable	Price	
\$ 0.01	365,000	3.80	\$ 0.01	365,000	\$	0.01
\$ 0.80	162,907	4.37	\$ 0.80	162,907	\$	0.80
\$ 1.00	1,625,000	2.33	\$ 1.00	1,625,000	\$	1.00
\$ 2.00	1,812,500	8.30	\$ 2.00	1,812,500	\$	2.00
\$ 2.60	20,000	3.10	\$ 2.60	20,000	\$	2.60
\$ 3.38	713,965	1.82	\$ 3.38	713,965	\$	3.38
\$ 0.01 - 3.38	4,699,372	4.74	\$ 1.67	4,699,372	\$	1.67

Included in the Company's outstanding warrants are 2,586,872 warrants that were issued to a related party over the period from August 2011 through July 2014 at exercise prices ranging from \$0.01 to \$3.38. One of the related party warrants contains provisions that require it to be accounted for as a derivative security. As of March 31, 2015 and December 31, 2014, the value of the related liability was \$18,065 and \$18,075, respectively. Changes in these values are recorded as income or expense during the reporting period that the change occurs.

# 6. ACCRUED LIABILITIES

Accrued liabilities at March 31, 2015, and December 31, 2014, are comprised of the following:

	Ma	rch 31, 2015	December 31, 2014		
Due to physicians	\$	2,829,563	\$	2,659,698	
Accrued salaries and director fees		3,475,156		3,996,901	
Other		509,831		617,381	
Total accrued liabilities	\$	6,814,550	\$	7,273,980	

#### 7. NOTES PAYABLE

Notes payable at March 31, 2015, and December 31, 2014, are comprised of the following:

	March 31, 2015	I	December 31, 2014
Notes payable to William Shell Survivor's Trust (a)	\$ 1,874,411	\$	1,874,411
Notes payable to William Shell (b)	130,000		130,000
Notes payable to Lisa Liebman (c)	500,000		500,000
Note payable to Cambridge Medical Funding Group, LLC (d)	1,398,559		1,523,559
Note payable to Derma Medical Systems, Inc. (e)	650,000		_
Note payable to Shlomo Rechnitz (f)	1,151,890		_
Total notes payable	5,704,860		4,027,970
Less: debt discount	(350,609)		(308,507)
	5,354,251		3,719,463
Less: current portion	(4,261,572)		(3,597,173)
Notes payable – long-term portion	\$ 1,092,679	\$	122,290

Between January 2011 and December 2012, William E. Shell, M.D., the Company's former Chief Executive Officer, former Chief Scientific Officer, greater than 10% shareholder and a former director, loaned \$5,132,334 to the Company. As consideration for the loans, the Company issued promissory notes in the aggregate principal amount of (i) \$4,982,334 to the Elizabeth Charuvastra and William Shell Family Trust dated July 27, 2006 and amended September 29, 2006 (the "Family Trust"), and (ii) \$150,000 to the William Shell Survivor's Trust (the "Survivor's Trust"). At the time these promissory notes were issued, all of these notes were issued with maturity dates of five years from the date of issuance with interest payable on the maturity date. On June 22, 2012, the Company's Board of Directors ratified an amendment that modified all promissory notes that were issued prior to June 22, 2012 to demand notes with interest payable quarterly (the "June 2012 Amendment"). The Company disputes the validity of the June 2012 Amendment. On December 21, 2012, all notes issued to the Family Trust were assigned to the Survivor's Trust (the "WS Trust Notes") which in turn assigned certain promissory notes, in the aggregate principal amount of \$500,000, to Lisa Liebman. The WS Trust Notes accrue interest at rates ranging between 3.25% and 12.0% per annum.

During the three months ended March 31, 2015 and 2014, the Company incurred interest expense of \$21,373 and \$22,136, respectively, on the WS Trust Notes. At March 31, 2015 and December 31, 2014, accrued interest on the WS Trust Notes totaled \$42,689 and 21,316, respectively.

On March 13, 2015, we received from counsel for Dr. Shell, Ms. Liebman, the Elizabeth Charuvastra and William Shell Family Trust dated July 27, 2006 and amended September 29, 2006 (the "Family Trust") and the William Shell Survivor's Trust (the "Survivor's Trust"), a written demand for repayment of all principal and interest outstanding on all outstanding notes. The Company disputes the enforceability of the demand.

(b) On July 24, 2014, Dr. Shell loaned \$130,000 to the Company. As consideration for the loan, the Company issued Dr. Shell a promissory note in the aggregate principal amount of \$130,000 (the "Shell Note"). The Shell Note accrues interest at the rate of 8% per annum and is payable on demand. As additional consideration for entering into the loan agreement, Dr. Shell received 162,907 warrants to purchase shares of the Company's common stock at an exercise price of \$0.798 per share (the "Shell Warrant"). The Company recorded a debt discount in the amount of \$44,867 based on the estimated fair value of the Shell Warrant. The debt discount was amortized as non-cash interest expense on the date of issuance using the effective interest method. During the three months ended March 31, 2015, the Company incurred interest expense of \$2,564 on the Shell Note. At March 31, 2015 and December 31, 2014, accrued interest on the Shell Note totaled \$4,502 and \$1,938, respectively.

- (c) On December 21, 2012 the William Shell Survivor's Trust assigned certain promissory notes, in the aggregate principal amount of \$500,000, to Lisa Liebman (the "Liebman Notes"), a related party. Lisa Liebman is married to Dr. Shell. The Liebman Notes accrue interest at rates ranging between 3.25% and 3.95% per annum. The Liebman Notes were included in the disputed June 2012 Amendment. The principal and interest on the Liebman Notes is reflected as payable on demand. During both the three months ended March 31, 2015 and 2014, the Company incurred interest expense on the Liebman Notes of \$4,732. At March 31, 2015 and December 31, 2014, accrued interest on the Liebman Notes totaled \$9,569 and \$4,837, respectively.
- (d) On June 28, 2013, the Company entered into an arrangement with CMFG which was governed pursuant to the terms of four contemporaneous agreements. On October 1, 2013, CMFG assigned its rights pursuant to the Workers' Compensation Receivables Funding, Assignment and Security Agreement, to Raven Asset-Based Opportunity Fund I LP, a Delaware limited partnership ("Raven"). The components of the agreements are detailed as follows:
  - Workers' Compensation Receivables Funding, Assignment and Security Agreement, as amended ("CMFG#2") The Company has assigned the future proceeds of accounts receivable of WC benefit claims with dates of service between the year 2007 and December 31, 2012 (the "Funded Receivables"), to Raven. In exchange, the Company received a loan of \$3.2 million. Prior to July 1, 2014, the monthly division of collections on Funded Receivables was distributed as follows: First, to CMFG as a servicing fee in an amount equal to five percent (5%) of the collections; Second, to Raven to pay off any shortfalls from previous months (a shortfall will have been deemed to occur if Raven receives less than \$175,000 in a given month); Third, to Raven in an amount up to \$175,000; Fourth, to the Company in an amount of \$125,000; Fifth, to Raven and the Company, the remainder of the Funded Receivables split at a ratio of 50% to 50%. Effective July 1, 2014, the monthly division of collections on the Funded Receivables will be distributed as follows: First, to CMFG as a servicing fee in an amount equal to five percent (5%) of the collections; Second, to Raven to pay off any shortfalls from previous months (a shortfall will have been deemed to occur if Raven receives less than \$125,000 in a given month); Third, to Raven in an amount up to \$125,000; Fourth, to the Company in an amount of \$125,000; Fifth, to Raven and the Company, the remainder of the Funded Receivables split at a ratio of 50% to 50%. Once Raven has received payment of \$3.95 million in collections from Funded Receivables, the Funded Receivables will cease to be distributed as described above, and will instead be distributed as follows: First, to CMFG as a servicing fee in an amount equal to five percent (5%) of the collections; and Second, to Raven and the Company, the remainder of the Funded Receivables will cease to be distributed as described above, and will instead be distributed as follows: First, to CMFG as a servicing fee in an amount equal to five percent (5%) of the
  - Common Stock Warrant to James Giordano, CEO of CMFG The Company issued a ten (10) year warrant to purchase 1,412,500 shares of common stock at an exercise price of \$2.00 per share (the "Giordano Warrant") as consideration for consulting services performed by Mr. Giordano, as described below. The warrants became exercisable during December 2013. The exercisable amount is limited to the average trading volume for the ten days prior to the date of exercise.
  - Professional Services and Consulting Agreement with Mr. Giordano The Company entered into a consulting arrangement with Mr. Giordano for consulting services relating to medical receivable billing, billing/management strategies, and areas related to financing. Mr. Giordano's only form of compensation for his consulting services was the issuance of the Giordano Warrant. The consulting agreement terminates at such time as all the obligations or contemplated transactions detailed in the Giordano Warrant have been satisfied.
  - Professional Services and Consulting Agreement with CMFG The Company entered into a consulting arrangement with CMFG for consulting services relating to medical receivable billing, billing/management strategies, and areas related to financing. The agreement provided for the Company to pay a one-time fee of \$64,000 upon execution of the agreement.

As additional consideration, Raven received a warrant to purchase 400,000 shares of the Company's common stock at an exercise price of \$2.00 per share (the "Raven Warrant") (See Note 5). The warrants became exercisable April 1, 2014. However, the exercisable amount is limited to the average trading volume for the ten days prior to the date of exercise. The Company accounted for the additional issuance of warrants as a modification of the original award issued June 28, 2013.

The Company recorded a debt discount in the amount of \$925,521 based on the estimated fair value of the Giordano and Raven Warrants. The debt discount is being amortized as non-cash interest expense over the term of the debt using the effective interest method. During the three months ended March 31, 2015 and 2014, interest expense of \$77,127 and \$115,690, respectively, was recorded from the debt discount amortization.

During the three months ended March 31, 2015 and 2014, the Company incurred interest expense, excluding amortization of debt discount, of \$86,680 and \$98,970, respectively, pursuant to CMFG #2.

(e) On January 13, 2015, the Company entered into a securities purchase agreement, pursuant to which the Company sold a senior secured convertible debenture (the "Debenture") in the principal amount of \$650,000, to Derma Medical Systems, Inc. ("Derma"). Thomas R. Wenkart, M.D., a director of the Company, is the owner and President of Derma. The Debenture accrues interest at 4% per annum, throughout the term of the Debenture, and unless earlier converted into shares of the Company's common stock, has a maturity date of January 12, 2018. Interest on the Debenture is paid semi-annually, at the Company's option, in either cash or shares of common stock. At Derma's option, the principal amount of the Debenture is convertible into shares of common stock at a conversion price of \$0.30, subject to adjustment. If, at any time while the Debenture is outstanding, the Company sells or grants any option to purchase or sells or grants any right to reprice, or otherwise disposes of or issues, any Common Stock or Common Stock equivalents entitling any person to acquire shares of Common Stock at an effective price per share that is lower than the conversion price (such issuances, collectively, a "Dilutive Issuance"), then the conversion price shall be reduced and only reduced by multiplying the conversion price by a fraction, the numerator of which is the number of shares of Common Stock issued and outstanding immediately prior to the Dilutive Issuance plus the number of shares of Common Stock which the offering price for such Dilutive Issuance would purchase at the then conversion price, and the denominator of which shall be the sum of the number of shares of Common Stock issued and outstanding immediately prior to the Dilutive Issuance plus the number of shares of Common Stock so issued or issuable in connection with the Dilutive Issuance.

The debt conversion feature embedded in the Debenture is accounted for under ASC Topic 815 – Derivatives and Hedging. At issuance, the fair value of the debt conversion feature totaled \$119,229 on the Debenture. The fair value of the debt conversion feature was allocated from the gross proceeds of the Debenture and the respective discount will be amortized to interest expense over the term of the Debenture using the effective interest method. The valuation of the bifurcated debt conversion feature was valued at the issue date utilizing the Black Scholes option pricing model.

During the three months ended March 31, 2015, the Company incurred interest expense of \$5,485 on the Debenture. At March 31, 2015, accrued interest on the Debenture totaled \$5,485.

(f) On February 23, 2015, Shlomo Rechnitz loaned \$1.2 million to the Company. As consideration for the loan, the Company issued Mr. Rechnitz a promissory note in the aggregate principal amount of \$1.2 million (the "Rechnitz Note"). The Rechnitz Note accrues interest at 4% per annum, throughout its term, and has a maturity date of February 22, 2017. Principal and interest on the Rechnitz Note is payable in monthly installments of \$52,110, beginning on March 22, 2015, and continuing until February 22, 2017. During the three months ended March 31, 2015, the Company incurred interest expense of \$4,734 on the Rechnitz Note. At March 31, 2015, accrued interest on the Rechnitz Note totaled \$734.

# 8. RELATED PARTY TRANSACTIONS

Notes Payable

As of March 31, 2015, and December 31, 2014, the Company has notes payable agreements issued to related parties with aggregate outstanding principal balances of \$3,154,411 and \$2,504,411, respectively (See Note 7).

# 9. EQUITY TRANSACTIONS

On March 21, 2014, the Company entered into a subscription agreement with Ultera Pty Ltd ATF MPS Superannuation Fund ("*Ultera*"). Dr. Wenkart, a director of the Company, is the owner and director of Ultera. The Company issued and sold to Ultera 400,000 shares of its common stock. The issuance resulted in aggregate gross proceeds to the Company of \$240,000.

During the year ended December 31, 2014, the Company issued an aggregate of 627,575 shares of its common stock pursuant to agreements with its directors and consultants to the Company. The shares were valued at \$398,750, an average of \$0.64 per share.

### 10. COMMITMENTS AND CONTINGENCIES

# **Legal Proceedings**

The Company is a party to various legal proceedings. At present, the Company believes that the ultimate outcome of these proceedings, individually and in the aggregate, will not materially harm our financial position, results of operations, cash flows, or overall trends. However, legal proceedings are subject to inherent uncertainties, and unfavorable rulings or other events could occur. Unfavorable resolutions could include substantial monetary damages. Were unfavorable resolutions to occur, the possibility exists for a material adverse impact on our business, results of operations, financial position, and overall trends. Management might also conclude that settling one or more such matters is in the best interests of our stockholders, employees, and customers, and any such settlement could include substantial payments. However, the Company has not reached this conclusion with respect to any particular ongoing matter at this time.

On March 13, 2015, we received from counsel for Dr. Shell, Ms. Liebman, the Elizabeth Charuvastra and William Shell Family Trust dated July 27, 2006 and amended September 29, 2006 (the "Family Trust") and the William Shell Survivor's Trust (the "Survivor's Trust"), a written demand for repayment of all principal and interest outstanding on all outstanding notes. The Company disputes the enforceability of the demand.

On March 18, 2015, an interim award in the amount of \$1.17 million dollars was issued against TMP for breach of contract, and in favor of PDR Medical Management, LLC, a California Limited Liability Company ("PDR"), a former distributor of the Company's products, at an Arbitration through JAMS. The amount of the award was for sums previously included in the Company's financial statements as "Due to Physicians" (See Note 6). A final award was issued on April 27, 2015, that awarded an additional \$333,274 to PDR for attorneys' fees, costs and prejudgment interest which is included in accrued liabilities in the accompanying consolidated balance sheet.

#### Leases

The Company leases its operating facility under a lease agreement expiring February 28, 2018 at the rate of \$21,007 per month. 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.

# 11. SUBSEQUENT EVENTS

On March 13, 2015, we received from counsel for Dr. Shell, Ms. Liebman, the Family Trust and the Survivor's Trust, a written demand for repayment of all principal and interest outstanding on all outstanding notes. The Company disputed the enforceability of the demand. On April 27, 2015, Dr. Shell, Ms. Liebman and the Survivor's Trust filed suit in Superior Court of California, County of Los Angeles, for repayment of all principal and interest outstanding. Additionally, between June 4, 2013, and November 25, 2013, the William Shell Survivor's Trust converted \$2,000,000 of its notes into 1,769,629 shares of the Company's common stock. The complaint now alleges that the conversion of \$2,000,000 in notes held by the Survivor's Trust did not occur. The Company disputes these allegations and believes the lawsuit is without merit.

On May 13, 2015, we received from counsel for Dr. Shell, a written demand for arbitration primarily related to unpaid compensation Dr. Shell claims he is due. The demand is seeking an award of \$1.9 million. The Company has not yet evaluated Dr. Shell's demand for arbitration but shall vigorously defend itself, while pursuing reasonable efforts to achieve a resolution of this matter.

### 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.

These condensed consolidated financial statements should be read in conjunction with the audited financial statements and related notes for the fiscal year ended December 31, 2014, contained in the Company's Annual Report on Form 10-K dated April 14, 2015.

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 CMFG;
- 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.

#### **Recent Developments**

On January 13, 2015, the Company entered into a securities purchase agreement, pursuant to which the Company sold a senior secured convertible debenture (the "Debenture") in the principal amount of \$650,000, to Derma Medical Systems, Inc. ("Derma"). Dr. Wenkart, M.D., a director of the Company, is the owner and President of Derma. The Debenture accrues interest at 4% per annum, throughout the term of the Debenture, and unless earlier converted into shares of the Company's common stock, has a maturity date of January 12, 2018. Interest on the Debenture is paid semi-annually, at the Company's option, in either cash or shares of common stock. At Derma's option, the principal amount of the Debenture is convertible into shares of common stock at a conversion price of \$0.30, subject to adjustment.

On February 23, 2015, the Company entered into an unsecured promissory note, pursuant to which the Company received the principal amount of \$1.2 million, from Shlomo Rechnitz (the "Lender"). The promissory note accrues interest at 4% per annum, throughout its term, and has a maturity date of February 22, 2017. Principal and interest on the promissory note is payable in monthly installments of \$52,110, beginning on March 22, 2015, and continuing until February 22, 2017. The loan closed on February 24, 2015.

On March 13, 2015, the Company received from counsel for Dr. Shell, Ms. Liebman, the Elizabeth Charuvastra and William Shell Family Trust dated July 27, 2006 and amended September 29, 2006 (the "Family Trust") and the William Shell Survivor's Trust (the "Survivor's Trust"), a written demand for repayment of all principal and interest outstanding on all outstanding notes. The Company disputed the enforceability of the demand. On April 27, 2015, Dr. Shell, Ms. Liebman and the Survivor's Trust filed suit in Superior Court of California, County of Los Angeles, for repayment of all principal and interest outstanding, Additionally, between June 4, 2013, and November 25, 2013, the William Shell Survivor's Trust converted \$2,000,000 of its notes into 1,769,629 shares of the Company's common stock. The complaint now alleges that the conversion of \$2,000,000 in notes held by the Survivor's Trust did not occur.

On May 13, 2015, we received from counsel for Dr. Shell, a written demand for arbitration primarily related to unpaid compensation Dr. Shell claims he is due. The demand is seeking an award of \$1.9 million.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2015 AND 2014

# TARGETED MEDICAL PHARMA, INC. AND SUBSIDIARY Condensed Consolidated Statements of Operations (Unaudited) For the Three Months Ended March 31, 2015 and 2014

	2015	% of Sales	2014	% of Sales
Total revenue	\$ 1,067,888	100.0%	\$ 1,800,903	100.0%
Total cost of sales	550,767	51.6%	559,534	31.1%
Gross profit	517,121	48.4%	1,241,369	68.9%
Total operating expenses	1,791,893	167.8%	1,952,155	108.4%
Loss from operations	(1,274,772)	(119.4%)	(710,786)	(39.5%)
Total other income (expenses)	(403,637)	(37.8%)	(263,684)	(14.6%)
Loss before income taxes	(1,678,409)	(157.2%)	(974,470)	(54.1%)
Income tax expense		<u> </u>		
NET LOSS	\$ (1,678,409)	(157.2%)	\$ (974,470)	(54.1%)
	21			

#### Revenue

During the three months ended March 31, 2015 and 2014, the Company recognized total revenue of \$1,067,888 and \$1,800,903, respectively. Total revenue included product revenues from the Company's TMP segment and service revenues from the Company's CCPI segment. Total revenues were comprised as follows:

	Three Months Ended March 31,					
	 2015	% of total revenue		2014	% of total revenue	
Total product revenue	\$ 935,053	87.6%	\$	1,633,280	90.7%	
Total service revenue	 132,835	12.4%		167,623	9.3%	
Total revenue	\$ 1,067,888	100.0%	\$	1,800,903	100.0%	

#### Product Revenue:

Product sales are invoiced upon shipment at AWP primarily under five models, as described in Note 3 to our consolidated financial statements: Physician Direct Sales, Distributor Direct Sales, Physician Managed, Hybrid and CMFG #1 Models. The Company has also begun to offer an Online Cash Model for direct sales to physicians, pharmacies and patients. Currently, revenue derived from the Online Cash Model is aggregated with Physician Direct Sales. Due to substantial uncertainties as to the timing and collectability of revenues derived from our Physician Managed and Hybrid Models, which can take in excess of five years to collect, we have determined that these revenues do not meet the criteria for recognition, in accordance with ASC 605, upon shipment. These revenues are recorded when collectability is reasonably assured, which the Company has determined is when the payment is received, regardless of the year originally invoiced (the "Cash Method"). Conversely, product sales under the Company's Physician Direct Sales, Distributor Direct Sales and CMFG #1 Models are recognized upon shipment (the "Accrual Method"). As a result, the Company's basis of recognizing revenue is a hybrid of the cash and accrual methods.

The Company recognized product revenue for the three months ended March 31, 2015 and 2014, of \$935,053 and \$1,633,280, respectively. The distribution of product revenue between the Cash Method and the Accrual Method of revenue recognition is as follows:

	Three Months Ended March 31,							
			% of product					
Revenue recognition method		2015	revenue		2014	revenue		
Cash method	\$	351,897	37.6%	\$	667,855	40.9%		
Accrual method	_	583,156	62.4%		965,425	59.1%		
Total product revenue	\$	935,053	100.0%	\$	1,633,280	100.0%		

The decrease in total product revenue is primarily attributed to two factors. First, the Company experienced a decrease in product revenue of \$220,568 from sales under the CMFG #1 Model. Under the CMFG #1 Model, certain physicians that purchased products from TMP under the Physician Managed Model had assigned their accounts receivables from California WC benefit claims to CMFG, at a discounted rate. The physician's fees and financial obligations due to TMP, for the purchase of TMP product and use of CCPI's services, were satisfied directly by CMFG. During the three months ended March 31, 2015, as a result of low reimbursement on the accounts receivable, CMFG terminated the relationship with some physicians and delayed the acceptance of claims for other physicians. The second factor that significantly attributed to the decrease in product revenue was the result of a decrease in cash collections from the Company's cash method customers. The decrease in cash collections from the Company's cash method customers is attributed to a reduction in aggregate actual billings (product shipments) and, to a lesser extent, routine fluctuations in payer reimbursements resulting from the beginning of the year resetting of patient deductibles. The reduction in product shipments to cash method customers is the result of an effort to eliminate unprofitable historical accounts that offered significant rapid pay discounts and uncertainty of payment. As reflected in the following table, during the three months ended March 31, 2015 and 2014, the Company shipped product to its cash method customers with product billings of \$710,424 and \$937,928, respectively. The 24.3% decrease in product shipments to customers that, for purposes of revenue recognition, are accounted for as cash method customers is the primary additional cause of the overall decrease in product revenue.

Thron	Months	Endad	March	21
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Actual billings	2015	 2014	 S Change	% Change
Cash method	\$ 710,424	\$ 937,928	\$ (227,504)	(24.3%)
Accrual method	 583,156	 965,425	 (382,269)	(39.6%)
Total product billings	\$ 1,293,580	\$ 1,903,353	\$ (609,773)	(32.0%)

#### Service Revenue:

In addition to product revenue, which is recognized in the TMP segment, the Company also recognizes service revenue from billing and collection services in its CCPI segment. The Company recognized service revenue for the three months ended March 31, 2015 and 2014, of \$132,835 and \$167,623, respectively. In each of the Physician Managed and Hybrid Models, CCPI provides billing and collection services. In consideration for its services, CCPI receives a service fee that is based upon a percentage of gross collections. 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 claims are paid. Under the CMFG #1 Model (under which CCPI also provides billing and collection services) CCPI recognizes revenue on the date that the 20% advance payment is due from CMFG. The decrease in service revenue of \$34,788 is primarily due to an overall decrease in aggregate collections.

# Cost of Product Sold

The reported cost of product sold for the three months ended March 31, 2015 decreased \$17,463 to \$121,856 from \$139,319 for the three months ended March 31, 2014. The cost of product sold as a percentage of reported product revenue increased to 13.0% for the three months ended March 31, 2015, compared to 8.5% for the three months ended March 31, 2014. Since the Company recognizes the cost of product sold on all products shipped, regardless of whether the sale resulted from a Cash Method or an Accrual Method customer, the cost of product sold as a percent of product billings (shipments) is more relevant for comparison purposes.

The actual cost of product sold as a percent of product billings during the three months ended March 31, 2015, was 9.4% compared with 7.3% in the three months ended March 31, 2014. The increase in product cost as a percent of product billings is primarily attributed to the delay in the acceptance of assigned claims for certain physicians by CMFG pursuant to the CMFG #1 Model. The existence of the delay resulted in a reduction in accrual method billings while at the same time the Company recognized the cost of product sold for these sales.

The following table illustrates the timing impact of the Company's revenue recognition policy on cost of product sold:

			Three Months E 2015	onths Ended March 31, 2014		
Derived from consolidated statements of operations:						
Reported product revenue		\$	935,053	\$	1,633,280	
Cost of product sold		\$	121,856	\$	139,319	
Cost of product sold as a % of reported revenue			13.0%	8.5%		
Derived from actual billings (net of rapid pay discounts):		•	710.424	Φ.	227.222	
Cash method billings		\$	710,424	\$	937,928	
Accrual method billings			583,156		965,425	
Total actual billings		\$	1,293,580	\$	1,903,353	
Cost of product sold		\$	121,856	\$	139,319	
Cost of product sold as a % of actual billings			9.4%		7.3%	
	23					

#### Cost of Services Sold

The cost of services sold for the three months ended March 31, 2015, slightly increased \$8,696 to \$428,911 from \$420,215 for the three months ended March 31, 2014. Cost of services sold consists primarily of salaries and employee benefits. During the three months ended March 31, 2015 and 2014, salaries and employee benefits were \$322,071 and \$346,505, respectively, a decrease of \$24,434. The decrease in salaries and employee benefits was the result of a series of personnel reductions at the Company's billing and collections subsidiary and was offset by an increase of \$48,000 attributed to the filing of liens for workers' compensation claims on behalf of CCPI's physician customers.

#### **Operating Expenses**

Operating expenses for the three months ended March 31, 2015, decreased \$160,262 to \$1,791,893 from \$1,952,155 for the three months ended March 31, 2014. Operating expenses as a percentage of total revenue increased to 168% of revenue from 108% of revenue. Operating expenses consist of research and development expense, which decreased \$51,379, and selling, general and administrative expenses, which decreased \$108,883. Changes in these items are further described below.

### Research and Development Expense

Research and development expenses for the three months ended March 31, 2015, decreased \$51,379, to \$7,104 from \$58,483 for the three months ended March 31, 2014. The level of expense typically varies from year to year depending on both the number of clinical trials that we have in progress and the level of activity occurring in the clinical trials. The level of activity during the three months ended March 31, 2015 was significantly less than the activity during the three months ended March 31, 2014.

During the three months ended March 31, 2014, a 60 patient clinical study with the University of Cincinnati Physicians Company, LLC, an Ohio nonprofit company, was being conducted. This study was being conducted on the effects of Theramine in the prevention of migraine headaches. During the three months ended March 31, 2014, the Company recorded \$44,000 in expense related to this study. In October 2014 the Company elected to terminate this study. The lack of financial obligations attributed to this clinical study is the primary cause of the decrease in research and development expenses.

# Selling, General and Administrative Expense

Selling, general and administrative expenses ("SG&A") were \$1,784,789 and \$1,893,672 for the three months ended March 31, 2015 and 2014, respectively. As reflected in the table below, the decrease in SG&A for the three months ended March 31, 2015, when compared to the three months ended March 31, 2014, was primarily the result of various fluctuations in the following expense categories: salaries and employee benefits, professional fees, insurance, depreciation and amortization and general and administrative expenses.

	Three Months Ended March 31,						
		2015		2014		\$ Change	% Change
Salaries and employee benefits	\$	677,321	\$	1,131,675	\$	(454,354)	(40.1%)
Professional fees		583,418		461,365		122,053	26.5%
Rent		80,093		71,357		8,736	12.2%
Insurance		84,447		60,176		24,271	40.3%
Depreciation & amortization		34,693		55,624		(20,931)	(37.6%)
General and administrative		324,817		113,475		211,342	186.2%
Total selling, general and administrative expenses	\$	1,784,789	\$	1,893,672	\$	(108,883)	(5.7%)

The \$454,354 decrease in salaries and employee benefits is attributed to an overall reduction in employees. The Company has made a concerted effort to reduce costs and as a result of this effort the number of employees in the TMP segment has decreased from 36 employees at March 31, 2014 to 22 employees at March 31, 2015, a 39% reduction.

The second largest component of our SG&A is professional fees which, compared to the three months ended March 31, 2014, increased by \$122,053. During the three months ended March 31, 2015, the Company experienced an increase in professional fees as a result of multiple factors.

• During the three months ended March 31, 2015, the Company was in arbitration through JAMS with PDR Medical Management, LLC ("PDR"), a former distributor of the Company's products. On March 18, 2015, an interim award in the amount of \$1.17 million dollars was issued against TMP for breach of contract, and in favor of PDR. The amount of the award was for sums previously included in the Company's financial statements as "Due to Physicians" (See Note 6). The final award was issued on April 27, 2015, that awarded an additional \$333,274 to PDR. The additional amount consisted of attorneys' fees and costs of \$216,174 and prejudgment interest of \$117,100. The cost associated with the attorneys' fees accounted for the majority of the increase in professional fees.

The \$216,174 increase in professional fees was partially offset by a decrease in financial advisory and investor relations services and a decrease in fees paid to Medicaid consultant.

- During the three months ended March 31, 2014, primarily as a result of two different consulting agreements, the Company incurred \$122,000 in fees for financial advisory and investor relations services. During the three months ended March 31, 2015, the Company had terminated all of these types of consulting services resulting in a decrease in financial advisory and investor relations services of \$53,226.
- In January 2013, the Company engaged a consultant for assistance in attaining Medicaid approval of four of the Company's products: Theramine®, Sentra PM® and AppTrim®. The Company terminated this consulting engagement at March 31, 2014. During the three months ended March 31, 2014, the Company recognized \$30,000 in fees related to this consulting contract as opposed to no fees during the three months ended March 31, 2015.

The remaining variance in professional fees is due to various types of professional fees, none of which are significant individually.

Insurance expense increased by \$24,271 during the three months ended March 31, 2015 compared to the three months ended March 31, 2014. The increase is primarily related to the timing of the expensing of premiums associated with the Company's Directors and Officers insurance policy. During late January 2014 the Company changed its insurance company and modified the coverage amounts of its Directors and Officers insurance policy. The Company amortized the cost of the new policy over its term, which effectively began in February 2014. As a result of these changes, the Company elected to fully expense the prior Directors and Officers insurance policy in 2013.

Property and equipment are stated at cost and are depreciated using the straight line method over the estimated useful lives of the assets, which generally range between 3 and 7 years. The Company allocates depreciation and amortization expense between cost of sales and operating expenses. During the three months ended March 31, 2015, as reflected in the Company's consolidated statements of cash flows, in aggregate depreciation and amortization decreased by \$37,266. The decrease in depreciation and amortization that is included in SG&A, of \$20,931, is primarily attributed to the timing of when assets were placed in service.

General and administrative expense experienced an increase of \$211,343 during the three months ended March 31, 2015 over the three months ended March 31, 2014. During the three months ended March 31, 2014, the Company successfully resolved a dispute with a former vendor over an amount due of \$139,318. The entire amount was written-off. Upon elimination of this one-time adjustment, the adjusted increase in general and administrative expense was \$72,025. This increase in general and administrative expenses is a combination of several types of expenses, none of which are significant individually.

#### Other Income and Expenses

Other income and expense includes interest expense, amortization of discounts on notes payable and changes in the fair value of the Company's warrant derivative liability. During the three months ended March 31, 2015, the Company reported other expense of \$403,637 compared with expense of \$263,684 during the three months ended March 31, 2014.

Interest expense increased by \$144,447, resulting in interest expense of \$403,647 in the three months ended March 31, 2015, as compared to interest expense of \$259,200 in the three months ended March 31, 2014. The increase was primarily due to the award of prejudgment interest of \$117,100 in the PDR arbitration and \$47,645 in interest related to untimely payroll tax deposits. The increase in interest expense attributed to the PDR arbitration and untimely payroll tax deposits was partially offset by a reduction in interest expense on the \$3.2 million loan with Cambridge Medical Funding Group (the "Cambridge Note"). During the three months ended March 31, 2015, the Company incurred interest expense from the Cambridge Note of \$86,680 and recorded non-cash interest expense of \$77,127 based on the estimated fair value of the warrants issued in connection with the Cambridge Note. During the three months ended March 31, 2014, the Company incurred interest expense from the Cambridge Note of \$98,970 and recorded non-cash interest expense of \$115,690, a net decrease of \$50,853.

### Current and Deferred Income Taxes

In June 2013 the Company made a decision to fully reserve its net deferred tax assets. As a result of this decision, we did not record an income tax benefit during the three months ended March 31, 2015 and 2014.

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 less likely than not that all of the deferred tax assets will be realized. Accordingly, the Company has established a 100% valuation allowance of \$9,383,898.

#### Net Loss

Net loss for the three months ended March 31, 2015, was \$1,678,409 compared to a net loss of \$974,470 for the three months ended March 31, 2014. The increased net loss was a result of a combination of decreased revenues and increased expenses as described above.

#### FINANCIAL CONDITION

Our negative working capital of \$12,430,224 as of March 31, 2015 increased \$614,603 from our December 31, 2014 negative working capital of \$11,815,621. Our operating losses during the three months ended March 31, 2014 were funded by proceeds from notes payable of \$1,850,000.

### Unrecognized Accounts Receivable

As of March 31, 2015, we have approximately \$7.2 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 Cash Method customers. Except for collection expenses incurred by CCPI, all expenses associated with these unrecognized accounts receivable, including cost of products sold, have already been expensed in our financial statements. In addition, for federal and state income tax purposes the Company has recognized these unrecognized accounts receivable as revenues. Therefore, the Company will not incur current tax liabilities for these unrecognized accounts receivable when they are collected.

For the three months ended March 31, 2015, the Company performed its regular analysis of outstanding invoices comprising unrecognized accounts receivables; specifically, the underlying outstanding insurance claims for each physician customer which is the source of future payment of these outstanding invoices. The analysis takes into account the value of claims outstanding, the age of these claims, and historical claims settlement and payment patterns. At March 31, 2015, the Company determined that collections on its unrecognized accounts receivable would approximate \$7.2 million. The analysis also took into account the impact of the agreement with Raven Asset-Based Opportunity Fund I LP ("Raven"), particularly the agreement dated June 28, 2013, as amended, regarding future collections. In exchange for loans of \$3.2 million the Company assigned its interest in certain pre-2013 workers compensation claims to Raven and agreed to share approximately 50% of future collections proceeds from settlement of such claims. At March 31, 2015, cumulative payments made to CMFG and Raven pursuant to CMFG #2 were \$2.325 million. The Company allocated these payments as debt repayment of \$1,801,441 and interest expense of \$523,559. Thus, at March 31, 2015, the remaining principal amount due to CMFG was \$1,398,559. The Company expects CMFG will receive aggregate future payments of approximately \$3.1 million. As a result of this updated and expanded analysis, of the total amount of \$7.2 million in unrecognized accounts receivable, the Company expects to retain approximately \$4.1 million, net of estimated amounts of future proceeds belonging to Raven pursuant to CMFG #2.

# LIQUIDITY AND CAPITAL RESOURCES

We have historically financed operations through cash flows from operations as well as equity transactions and related party loans. As noted above, we entered into an agreement with Raven that provided for loans of \$3.2 million. 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 years ended December 31, 2014 and 2013, our independent auditor 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 either obtaining future equity financings or achieving profitable operations in order to repay the existing short-term debt and to provide a sufficient source of operating capital. No assurances can be made that the Company will be successful in obtaining equity financing needed to continue to fund its operations, or that the Company will achieve profitable operations and financial condition.

Net cash used in operating activities for the three months ended March 31, 2015, was \$1,461,442 as opposed to net cash used in operating activities of \$76,061 during the three months ended March 31, 2014. During the three months ended March 31, 2015 and 2014, the Company reported a net loss of \$1,678,409 and \$974,470, respectively. Cash used in investing activities for the three months ended March 31, 2015 and 2014, was insignificant.

Net proceeds from the issuance of notes payable offset the negative cash flows from operating activities. Ultimately, we experienced an increase in cash of \$211,448 in the three months ended March 31, 2015. A decrease in cash collections on claims filed by CCPI on behalf of customers utilizing the Physician Managed Model and Hybrid Model negatively impacted cash flows in the three months ended March 31, 2015. 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 cash sales.

# OFF-BALANCE SHEET ARRANGEMENTS

The Company's June 28, 2013, agreement with Raven, as amended, is an off-balance sheet arrangement that could have a material current effect, or that is 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. Under this agreement, certain workers' compensation claims have been assigned to Raven in exchange for loans to the Company. In addition to repaying these loans the Company would share future collections with Raven, and thereby reduce the availability of future income to fund the operations of the Company.

#### CONTRACTUAL OBLIGATIONS

The Company leases its operating facility under a lease agreement expiring February 28, 2018 at the rate of \$21,007 per month. 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.

# Item 3. Quantitative and Qualitative Disclosures About Market Risk.

As a Smaller Reporting Company as defined by Rule 12b-2 of the Exchange Act and in item 10(f)(1) of Regulation S-K, we are electing scaled disclosure reporting obligations and therefore are not required to provide the information requested by this Item.

#### Item 4. Controls and Procedures.

#### Evaluation of Disclosure Controls and Procedures.

The Company's management, including our Chief Executive Officer and Chief Financial Officer, assessed 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, 2015, and has determined that our disclosure controls and procedures were effective as of March 31, 2015.

#### 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.

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, 2015, 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 March 13, 2015, we received from counsel for Dr. Shell, Ms. Liebman, the Elizabeth Charuvastra and William Shell Family Trust dated July 27, 2006 and amended September 29, 2006 (the "Family Trust") and the William Shell Survivor's Trust (the "Survivor's Trust"), a written demand for repayment of all principal and interest outstanding on all outstanding notes. The Company disputes the enforceability of the demand. On April 27, 2015, Dr. Shell, Ms. Liebman and the Survivor's Trust filed suit in Superior Court of California, County of Los Angeles, for repayment of all principal and interest outstanding. Additionally, between June 4, 2013, and November 25, 2013, the William Shell Survivor's Trust converted \$2,000,000 of its notes into 1,769,629 shares of the Company's common stock. The complaint now alleges that the conversion of \$2,000,000 in notes held by the Survivor's Trust did not occur. The Company disputes these allegations and believes the lawsuit is without merit.

On May 13, 2015, we received from counsel for Dr. Shell, a written demand for arbitration primarily related to unpaid compensation Dr. Shell claims he is due. The demand is seeking an award of \$1.9 million. The Company has not yet evaluated Dr. Shell's demand for arbitration but shall vigorously defend itself, while pursuing reasonable efforts to achieve a resolution of this matter.

On March 18, 2015, an interim award in the amount of \$1.17 million dollars was issued against TMP for breach of contract, and in favor of PDR Medical Management, LLC, a former distributor of the Company's products, at an Arbitration through JAMS. The amount of the award represented the balance of unpaid amounts due to PDR and was previously included in the Company's financial statements as "Due to Physicians" during the periods that the liability was incurred. A final award was issued on April 27, 2015, that awarded an additional \$333,274 to PDR for attorneys' fees, costs and prejudgment interest.

# Item 1A. Risk Factors.

There have been no material changes from risk factors previously disclosed in Item 1A included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, which was filed with the SEC on April 14, 2015.

# 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.

### Exhibit

EXHIBIT	
Number	Description
31.1*	Certification of Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a)
31.2*	Certification of Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a)
32.1*	Certification of Chief Executive Officer and Chief Financial Officer required by Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter
	63 of Title 18 of the United States Code
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document

<sup>\*</sup> Filed herewith.

<sup>\*\*</sup> In accordance with Rule 406T of Regulation S-T, the information in these exhibits shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, except as expressly set forth by specific reference in such filing.

# **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.

TARGETED MEDICAL PHARMA, INC.

Date: May 15, 2015 By: /s/Kim Giffoni

Kim Giffoni

Chief Executive Officer

Date: May 15, 2015 By: /s/ William B. Horne

William B. Horne

Chief Financial Officer and Principal Accounting Officer

30

#### **CERTIFICATIONS**

I, Kim Giffoni as Chief Executive Officer of Targeted Medical Pharma, Inc., certify that:

- 1. I have reviewed this quarterly report on Form 10-Q of Targeted Medical Pharma, Inc. for the first quarter ended March 31, 2015;
- Based on my knowledge, this quarterly 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 officers 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 quarterly 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 officers 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 function):
  - 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.

Date: May 15, 2015

By: /s/Kim Giffoni

Name: Kim Giffoni

Title: Chief Executive Officer

#### **CERTIFICATIONS**

I, William B. Horne, as Chief Financial Officer of Targeted Medical Pharma, Inc., certify that:

- 1. I have reviewed this quarterly report on Form 10-Q of Targeted Medical Pharma, Inc. for the first quarter ended March 31, 2015;
- 2. Based on my knowledge, this quarterly 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 officers 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 quarterly 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 officers 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 function):
  - 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.

Date: May 15, 2015

By: /s/ William B. Horne
Name: William B. Horne

Title: Chief Financial Officer

# CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report on Form 10-Q of Targeted Medical Pharma, Inc. (the "Company") for the fiscal quarter ended March 31, 2015, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Kim Giffoni, as Chief Executive Officer of the Company, and William B. Horne, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 15, 2015 By: /s/ Kim Giffoni

Kim Giffoni

Chief Executive Officer

Date: May 15, 2015 By: /s/ William B. Horne

William B. Horne

Chief Financial Officer and Principal Accounting Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and is not being "filed" as part of the Form 10-Q or as a separate disclosure document for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to liability under that section. This certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act except to the extent that this Exhibit 32.1 is expressly and specifically incorporated by reference in any such filing.

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.