

Apollo Medical Holdings, Inc.  
Form 10-Q  
August 15, 2016

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

*(Mark One)*

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

For the quarterly period ended **June 30, 2016**

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

**Commission File No.**

**001-37392**

**Apollo Medical Holdings, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**                      **46-3837784**  
State of Incorporation IRS Employer Identification No.

**700 North Brand Boulevard, Suite 1400**

**Glendale, California 91203**

(Address of principal executive offices)

**(818) 396-8050**

(Issuer's telephone number)

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

Securities Registered Pursuant to Section 12(b) of the Act:

| Title of each Class | Name of each Exchange on which Registered |
|---------------------|-------------------------------------------|
|                     | None                                      |

Securities Registered Pursuant to Section 12(g) of the Act:

Common Stock, \$.001 Par Value

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer    ☐ Accelerated filer    ☐

Non-accelerated filer    ☐ Smaller reporting company    ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):  
☐ Yes ☒ No

As of August 10, 2016, there were 5,745,036 shares of common stock, \$.001 par value per share, issued and outstanding.

**APOLLO MEDICAL HOLDINGS, INC.**

**INDEX TO FORM 10-Q FILING**

**TABLE OF CONTENTS**

|                                                                                                          | <b>PAGE</b> |
|----------------------------------------------------------------------------------------------------------|-------------|
| <b><u>PART I</u></b>                                                                                     |             |
| <b><u>FINANCIAL INFORMATION</u></b>                                                                      |             |
| Item 1. <u>Condensed Consolidated Financial Statements – Unaudited</u>                                   | 4           |
| <u>Balance Sheets as of June 30, 2016 and March 31, 2016</u>                                             | 4           |
| <u>Statements of Operations and Comprehensive Loss for the Three Months Ended June 30, 2016 and 2015</u> | 5           |
| <u>Statements of Cash Flows for the Three Months Ended June 30, 2016 and 2015</u>                        | 6           |
| <u>Notes to Condensed Consolidated Financial Statements - Unaudited</u>                                  | 7           |
| Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>     | 24          |
| Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>                                | 30          |
| Item 4. <u>Control and Procedures.</u>                                                                   | 30          |
| <b><u>PART II</u></b>                                                                                    |             |
| <b><u>OTHER INFORMATION</u></b>                                                                          |             |
| Item 1. <u>Legal Proceedings</u>                                                                         | 30          |
| Item 2. <u>Unregistered Sales of Equity Securities and the Use of Proceeds</u>                           | 32          |
| Item 3. <u>Defaults upon Senior Securities</u>                                                           | 32          |
| Item 4. <u>Mine Safety Disclosures</u>                                                                   | 32          |
| Item 5. <u>Other Information</u>                                                                         | 32          |
| Item 6. <u>Exhibits</u>                                                                                  | 33          |

## Forward-Looking Statements

This document contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements other than statements of historical fact are “forward-looking statements” for purposes of federal and state securities laws, including, but not limited to, any projections of earnings, revenue or other financial items; any statements of the plans, strategies and objectives of management for future operations; any statements concerning proposed new services or developments; any statements regarding future economic conditions or performance; any statements of belief; and any statements of assumptions underlying any of the foregoing.

Forward-looking statements may include the words “may,” “could,” “will,” “estimate,” “intend,” “continue,” “believe,” “expect,” “anticipate” or other similar words. These forward-looking statements present our estimates and assumptions only as of the date of this report. Except as required by the federal securities laws, we do not intend, and undertake no obligation, to update any forward-looking statement.

Although we believe that the expectations reflected in any of our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed in any of our forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to change and inherent risks and uncertainties. Some of the key factors impacting these risks and uncertainties include, but are not limited to:

- risks related to our ability to raise capital;
- our ability to retain key individuals, including our Chief Executive Officer, Warren Hosseinian, M.D.
- the impact of rigorous competition in the healthcare industry generally;
- the impact on our business, if any, as a result of changes in the way market share is measured by third parties;
- our dependence on a few larger payors;
- whether or not we receive an “all or nothing” annual payment from the Centers for Medicare & Medicaid Services (“CMS”) in connection with our participation in the Medicare Shared Savings Program (the “MSSP”);

· changes in Federal and state programs and policies regarding medical reimbursements and capitated payments for health services we provide;

· the overall success of our acquisition strategy in locating and acquiring new businesses, and the integration of any acquired businesses with our existing operations;

· industry-wide market factors and regulatory and other developments affecting our operations;

· The impact of intense competition in the healthcare industry;

· Changing rules and regulations regarding reimbursements for medical services from private insurance, on which we are significantly dependent in generating revenue;

· Changing government programs in which we participate for the provision of health services and on which we are also significantly dependent in generating revenue;

· Industry-wide market factors, laws, regulations and other developments affecting our industry in general and our operations in particular;

· General economic uncertainty;

· The impact of any potential future impairment of our assets;

· Risks related to changes in accounting interpretations; and

· The impact, including additional costs, of mandates and other obligations that may be imposed upon us as a result of new -federal healthcare laws, including the Patient Protection and Affordable Care Act (the “ACA”), the rules and regulations promulgated thereunder and any executive action with respect thereto.

For a detailed description of these and other factors that could cause actual results to differ materially from those expressed in any forward-looking statement, please see the section entitled “Risk Factors,” beginning on page 29 of our Annual Report on Form 10-K for the year ended March 31, 2016, filed with the Securities and Exchange Commission (the “SEC”) on June 29, 2016.

**PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****APOLLO MEDICAL HOLDINGS, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(UNAUDITED)**

|                                                                                                                                          | June 30,<br>2016    | March 31,<br>2016   |
|------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| <b>ASSETS</b>                                                                                                                            |                     |                     |
| Cash and cash equivalents                                                                                                                | \$6,509,589         | \$9,270,010         |
| Accounts receivable, net of allowance for doubtful accounts of \$769,000 and \$601,000 at June 30, 2016 and March 31, 2016, respectively | 3,999,532           | 3,392,941           |
| Other receivables                                                                                                                        | 315,233             | 581,213             |
| Due from affiliates                                                                                                                      | 20,052              | 20,505              |
| Prepaid expenses and other current assets                                                                                                | 509,010             | 293,828             |
| Total current assets                                                                                                                     | 11,353,416          | 13,558,497          |
| Deferred financing costs                                                                                                                 | -                   | 37,926              |
| Property and equipment, net                                                                                                              | 1,341,984           | 1,247,973           |
| Restricted cash                                                                                                                          | 530,000             | 530,000             |
| Intangible assets, net                                                                                                                   | 2,258,054           | 2,353,212           |
| Goodwill                                                                                                                                 | 1,622,483           | 1,622,483           |
| Other assets                                                                                                                             | 213,680             | 216,442             |
| <b>TOTAL ASSETS</b>                                                                                                                      | <b>\$17,319,617</b> | <b>\$19,566,533</b> |
| <b>LIABILITIES, MEZZANINE EQUITY AND STOCKHOLDERS' EQUITY</b>                                                                            |                     |                     |
| Accounts payable and accrued liabilities                                                                                                 | \$4,254,856         | \$4,572,307         |
| Medical liabilities                                                                                                                      | 2,512,041           | 2,670,709           |
| Note and line of credit                                                                                                                  | 176,264             | 188,764             |
| Total current liabilities                                                                                                                | 6,943,161           | 7,431,780           |
| Warrant liability                                                                                                                        | 1,988,889           | 2,811,111           |
| Deferred rent liability                                                                                                                  | 762,461             | 728,877             |
| Deferred tax liability                                                                                                                   | 43,479              | 43,479              |
| Total liabilities                                                                                                                        | 9,737,990           | 11,015,247          |

**COMMITMENTS AND CONTINGENCIES**

MEZZANINE EQUITY

|                                                                                                   |             |             |
|---------------------------------------------------------------------------------------------------|-------------|-------------|
| Series A Preferred stock, par value \$0.001; 5,000,000 shares authorized (inclusive of Series B); |             |             |
| 1,111,111 issued and outstanding                                                                  | \$7,077,778 | \$7,077,778 |
| Liquidation preference of \$9,999,999                                                             |             |             |

STOCKHOLDERS' EQUITY

|                                                                                                                                                                            |                     |                     |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| Series B Preferred stock, par value \$0.001; 5,000,000 shares authorized (inclusive of Series A);                                                                          |                     |                     |
| 555,555 issued and outstanding                                                                                                                                             | 3,884,745           | 3,884,745           |
| Liquidation preference of \$4,999,995                                                                                                                                      |                     |                     |
| Common Stock, par value \$0.001; 100,000,000 shares authorized, 5,998,518 and 5,876,852 shares issued and outstanding as of June 30, 2016 and March 31, 2016, respectively | 5,998               | 5,876               |
| Additional paid-in-capital                                                                                                                                                 | 23,904,114          | 23,524,517          |
| Accumulated deficit                                                                                                                                                        | (29,999,822)        | (28,684,565)        |
| Stockholders' deficit attributable to Apollo Medical Holdings, Inc.                                                                                                        | (2,204,965 )        | (1,269,427 )        |
| Non-controlling interest                                                                                                                                                   | 2,708,814           | 2,742,935           |
| Total stockholders' equity                                                                                                                                                 | 503,849             | 1,473,508           |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                                                                          | <b>\$17,319,617</b> | <b>\$19,566,533</b> |

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

**APOLLO MEDICAL HOLDINGS, INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**
**(UNAUDITED)**

|                                                                                        | Three Months Ended June 30, |                 |
|----------------------------------------------------------------------------------------|-----------------------------|-----------------|
|                                                                                        | 2016                        | 2015            |
| Net revenues                                                                           | \$ 12,371,673               | \$ 10,204,125   |
| Costs and expenses:                                                                    |                             |                 |
| Cost of services                                                                       | 10,133,005                  | 7,567,868       |
| General and administrative                                                             | 3,836,475                   | 4,237,203       |
| Depreciation and amortization                                                          | 164,658                     | 63,751          |
| Total costs and expenses                                                               | 14,134,138                  | 11,868,822      |
| Loss from operations                                                                   | (1,762,465 )                | (1,664,697 )    |
| Other income (expense)                                                                 |                             |                 |
| Interest expense                                                                       | (2,659 )                    | (360,402 )      |
| Gain (loss) on change in fair value of warrant and conversion feature liabilities, net | 822,222                     | (213,718 )      |
| Other income                                                                           | 1,971                       | 101,004         |
| Total other income (expense), net                                                      | 821,534                     | (473,116 )      |
| Loss before (benefit) provision for income taxes                                       | (940,931 )                  | (2,137,813 )    |
| (Benefit) provision for income taxes                                                   | (41,553 )                   | 92,691          |
| Net loss                                                                               | (899,378 )                  | (2,230,504 )    |
| Net income attributable to non-controlling interests                                   | (415,879 )                  | (251,862 )      |
| Net loss attributable to Apollo Medical Holdings, Inc.                                 | \$ (1,315,257 )             | \$ (2,482,366 ) |
| Net loss per share:                                                                    |                             |                 |
| Basic and diluted                                                                      | \$ (0.22 )                  | \$ (0.51 )      |
| Weighted average shares of common stock outstanding:                                   |                             |                 |
| Basic and diluted                                                                      | 5,914,826                   | 4,863,389       |

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



**APOLLO MEDICAL HOLDINGS, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(UNAUDITED)**

|                                                                             | Three Months Ended June 30, |                 |
|-----------------------------------------------------------------------------|-----------------------------|-----------------|
|                                                                             | 2016                        | 2015            |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                |                             |                 |
| Net loss                                                                    | \$ (899,378 )               | \$ (2,230,504 ) |
| Adjustments to reconcile net loss to net cash used in operating activities: |                             |                 |
| Provision for doubtful accounts, net of recoveries                          | 167,496                     | -               |
| Depreciation and amortization expense                                       | 164,658                     | 63,751          |
| Deferred income tax                                                         | -                           | 3,065           |
| Stock-based compensation expense                                            | 247,717                     | 83,848          |
| Amortization of deferred financing costs                                    | 37,926                      | 29,914          |
| Amortization of debt discount                                               | -                           | 115,609         |
| Change in fair value of warrant and conversion feature liabilities          | (822,222 )                  | 213,718         |
| Changes in assets and liabilities:                                          |                             |                 |
| Accounts receivable                                                         | (774,087 )                  | 108,827         |
| Other receivables                                                           | 265,980                     | (120,151 )      |
| Due from affiliates                                                         | 453                         | (14,748 )       |
| Prepaid expenses and other current assets                                   | (215,182 )                  | 20,698          |
| Other assets                                                                | 2,762                       | 6,570           |
| Accounts payable and accrued liabilities                                    | (317,451 )                  | 790,613         |
| Deferred financing cost                                                     | -                           | 513,347         |
| Deferred rent liability                                                     | 33,584                      | -               |
| Medical liabilities                                                         | (158,668 )                  | (112,904 )      |
| Net cash used in operating activities                                       | (2,266,412 )                | (528,347 )      |
| <br>Cash flows from investing activities:                                   |                             |                 |
| Property and equipment acquired                                             | (163,511 )                  | -               |
| Net cash used in investing activities                                       | (163,511 )                  | -               |
| <br>Cash flows from financing activities:                                   |                             |                 |
| Principal payments on lines of credit                                       | (12,500 )                   | -               |
| Distributions to non-controlling interest shareholder                       | (450,000 )                  | (595,418 )      |
| Proceeds from the exercise of warrants                                      | 132,002                     | -               |
| Net cash used in financing activities                                       | (330,498 )                  | (595,418 )      |
| <br>Net decrease in cash and cash equivalents                               | (2,760,421 )                | (1,123,765 )    |
| <br>Cash and cash equivalents, beginning of period                          | 9,270,010                   | 5,014,242       |
| <br>Cash and cash equivalents, end of period                                | \$ 6,509,589                | \$ 3,890,477    |

Supplementary disclosures of cash flow information:

|                   |           |            |
|-------------------|-----------|------------|
| Interest paid     | \$ 7,142  | \$ 100,959 |
| Income taxes paid | \$ 16,400 | \$ 32,197  |

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

APOLLO MEDICAL HOLDINGS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

## **1. Description of Business**

Apollo Medical Holdings, Inc. (the “Company” or “ApolloMed”) and its affiliated physician groups are a patient-centered, physician-centric integrated healthcare delivery company working to provide coordinated, outcomes-based medical care in a cost-effective manner. ApolloMed has built a company and culture that is focused on physicians providing high quality care, population management and care coordination for patients, particularly for senior patients and patients with multiple chronic conditions.

ApolloMed serves Medicare, Medicaid and health maintenance organization (“HMO”) patients, and uninsured patients, in California. The Company primarily provides services to patients who are covered predominately by private or public insurance, although the Company derives a small portion of its revenue from non-insured patients. The Company provides care coordination services to each major constituent of the healthcare delivery system, including patients, families, primary care physicians, specialists, acute care hospitals, alternative sites of inpatient care, physician groups and health plans.

ApolloMed’s physician network consists of hospitalists, primary care physicians and specialist physicians primarily through ApolloMed’s owned and affiliated physician groups. ApolloMed operates through the following subsidiaries: Apollo Medical Management, Inc. (“AMM”), Pulmonary Critical Care Management, Inc. (“PCCM”), Verdugo Medical Management, Inc. (“VMM”), ApolloMed Accountable Care Organization, Inc. (“ApolloMed ACO”), and Apollo Care Connect (ApolloCare). Through its wholly-owned subsidiary, AMM, ApolloMed manages affiliated medical groups, which consist of ApolloMed Hospitalists (“AMH”), a hospitalist company, ApolloMed Care Clinic (“ACC”), Maverick Medical Group, Inc. (“MMG”), AKM Medical Group, Inc. (“AKM”), Southern California Heart Centers (“SCHC”) and Bay Area Hospitalist Associates, A Medical Corporation (“BAHA”). Through its wholly-owned subsidiary, PCCM, ApolloMed manages Los Angeles Lung Center (“LALC”), and through its wholly-owned subsidiary VMM, ApolloMed manages Eli Hendel, M.D., Inc. (“Hendel”). ApolloMed also has a controlling interest in ApolloMed Palliative Services, LLC (“APS”), which owns two Los Angeles-based companies, Best Choice Hospice Care LLC (“BCHC”) and Holistic Health Home Health Care Inc. (“HCHHA”).

AMM, PCCM and VMM each operate as a physician practice management company and are in the business of providing management services to physician practice corporations under long-term management service agreements, pursuant to which AMM, PCCM or VMM, as applicable, manages all non-medical services for the affiliated medical

group and has exclusive authority over all non-medical decision making related to ongoing business operations.

ApolloMed ACO participates in the Medicare Shared Savings Program (MSSP), the goal of which is to improve the quality of patient care and outcomes through more efficient and coordinated approach among providers. Revenues earned by ApolloMed ACO are uncertain, and, if such amounts are payable by the Centers for Medicare and Medicaid Services (CMS), they will be paid on an annual basis significantly after the time earned, and are contingent on various factors, including achievement of the minimum savings rate as determined by MSSP for the relevant period. Such payments are earned and made on an “all or nothing” basis. CMS has determined that ApolloMed ACO did not meet the minimum savings threshold and therefore did not receive any incentive payment in fiscal year 2016 for calendar 2015.

In January 2016, the Company formed ApolloCare which acquired certain technology and other assets of Healarium, Inc., which provides the Company with a cloud and mobile-based population health management platform that includes digital care plans, a case management module, connectivity with multiple healthcare tracking devices and the ability to integrate with multiple electronic health records to capture clinical data.

### **Liquidity and Capital Resources**

The condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and have been prepared on a going concern basis, which contemplates the realization of assets and settlement of liabilities in the normal course of business.

The Company has a history of operating losses and as of June 30, 2016 has an accumulated deficit of \$29,999,822, and during the three months ended June 30, 2016 net cash used in operating activities was \$2,266,412.

As of June 30, 2016, the Company’s primary source of liquidity includes cash on hand of \$6,509,589 which is part of net working capital of approximately \$4.4 million. The Company, however, may require additional funding to meet certain obligations until sufficient cash flows are generated from anticipated operations. Management believes that ongoing requirements for working capital, debt service and planned capital expenditures will be adequately funded from current sources for at least the next twelve months. If available funds are not adequate, the Company may need to obtain additional sources of funds or reduce operations; however, there is no assurance that the Company will be successful in doing so.

## **2. Summary of Significant Accounting Policies**

### **Accounting Principles**

These unaudited condensed consolidated statements reflect all adjustments, consisting of normal recurring adjustments, which, in management's opinion, are necessary, and should be read in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2016 as filed with the SEC on June 29, 2016.

### **Principles of Consolidation**

The Company's consolidated financial statements include the accounts of (1) Apollo Medical Holdings, Inc. and its wholly owned subsidiaries AMM, PCCM, VMM, and ApolloCare (2) the Company's controlling interest in ApolloMed ACO, and APS, (3) physician practice corporations ("PPCs") managed under long-term management service agreements including AMH, MMG, ACC, LALC, Hendel, AKM, SCHC and BAHA. Some states have laws that prohibit business entities, such as ApolloMed, from practicing medicine, employing physicians to practice medicine, exercising control over medical decisions by physicians (collectively known as the corporate practice of medicine), or engaging in certain arrangements with physicians, such as fee-splitting. In California, the Company operates by maintaining long-term management service agreements with the PPCs, which are each owned and operated by physicians, and which employ or contract with additional physicians to provide healthcare services. Under the management agreements, the Company provides and performs all non-medical management and administrative services, including financial management, information systems, marketing, risk management and administrative support. Each management agreement typically has a term from 10 to 20 years unless terminated by either party for cause. The management agreements are not terminable by the PPCs, except in the case of material breach or bankruptcy of the respective PPM.

Through the management agreements and the Company's relationship with the stockholders of the PPCs, the Company has exclusive authority over all non-medical decision making related to the ongoing business operations of the PPCs. Consequently, the Company consolidates the revenue and expenses of each PPC from the date of execution of the applicable management agreement.

All intercompany balances and transactions have been eliminated in consolidation.

### **Business Combinations**

The Company uses the acquisition method of accounting for all business combinations, which requires assets and liabilities of the acquiree to be recorded at fair value, to measure the fair value of the consideration transferred, including contingent consideration, to be determined on the acquisition date, and to account for acquisition related costs separately from the business combination.

## **Reportable Segments**

The Company operates as one reportable segment, the healthcare delivery segment, and implements and operates innovative health care models to create a patient-centered, physician-centric experience. The Company reports its consolidated financial statements in the aggregate, including all activities in one reportable segment.

## **Revenue Recognition**

Revenue consists of contracted, fee-for-service, and capitation revenue. Revenue is recorded in the period in which services are rendered. Revenue is principally derived from the provision of healthcare staffing services to patients within healthcare facilities. The form of billing and related risk of collection for such services may vary by customer. The following is a summary of the principal forms of the Company's billing arrangements and how net revenue is recognized for each.

### *Contracted revenue*

Contracted revenue represents revenue generated under contracts for which the Company provides physician and other healthcare staffing and administrative services in return for a contractually negotiated fee. Contract revenue consists primarily of billings based on hours of healthcare staffing provided at agreed-to hourly rates. Revenue in such cases is recognized as the hours are worked by the Company's staff and contractors. Additionally, contract revenue also includes supplemental revenue from hospitals where the Company may have a fee-for-service contract arrangement or provide physician advisory services to the medical staff at a specific facility. Contract revenue for the supplemental billing in such cases is recognized based on the terms of each individual contract. Such contract terms generally either provides for a fixed monthly dollar amount or a variable amount based upon measurable monthly activity, such as hours staffed, patient visits or collections per visit compared to a minimum activity threshold. Such supplemental revenues based on variable arrangements are usually contractually fixed on a monthly, quarterly or annual calculation basis considering the variable factors negotiated in each such arrangement. Such supplemental revenues are recognized as revenue in the period when such amounts are determined to be fixed and therefore contractually obligated as payable by the customer under the terms of the respective agreement. Additionally, the Company derives a portion of the Company's revenue as a contractual bonus from collections received by the Company's partners and such revenue is contingent upon the collection of third-party billings. These revenues are not considered earned and therefore not recognized as revenue until actual cash collections are achieved in accordance with the contractual

arrangements for such services.

*Fee-for-service revenue*

Fee-for-service revenue represents revenue earned under contracts in which the Company bills and collects the professional component of charges for medical services rendered by the Company's contracted physicians. Under the fee-for-service arrangements, the Company bills patients for services provided and receives payment from patients or their third-party payors. Fee-for-service revenue is reported net of contractual allowances and policy discounts. All services provided are expected to result in cash flows and are therefore reflected as net revenue in the financial statements. Fee-for-service revenue is recognized in the period in which the services are rendered to specific patients and reduced immediately for the estimated impact of contractual allowances in the case of those patients having third-party payor coverage. The recognition of net revenue (gross charges less contractual allowances) from such visits is dependent on such factors as proper completion of medical charts following a patient visit, the forwarding of such charts to the Company's billing center for medical coding and entering into the Company's billing system and the verification of each patient's submission or representation at the time services are rendered as to the payor(s) responsible for payment of such services. Revenue is recorded based on the information known at the time of entering of such information into the Company's billing systems as well as an estimate of the revenue associated with medical services.

*Capitation revenue*

Capitation revenue (net of capitation withheld to fund risk share deficits) is recognized in the month in which the Company is obligated to provide services. Minor ongoing adjustments to prior months' capitation, primarily arising from contracted health maintenance organizations (each, an "HMO") finalizing of monthly patient eligibility data for additions or subtractions of enrollees, are recognized in the month they are communicated to the Company. Managed care revenues of the Company consist primarily of capitated fees for medical services provided by the Company under a provider service agreement ("PSA") or capitated arrangements directly made with various managed care providers including HMO's and management service organizations ("MSOs"). Capitation revenue under the PSA and HMO contracts is prepaid monthly to the Company based on the number of enrollees electing the Company as their healthcare provider. Additionally, Medicare pays capitation using a "Risk Adjustment model," which compensates managed care organizations and providers based on the health status (acuity) of each individual enrollee. Health plans and providers with higher acuity enrollees will receive more and those with lower acuity enrollees will receive less. Under Risk Adjustment, capitation is determined based on health severity, measured using patient encounter data. Capitation is paid on an interim basis based on data submitted for the enrollee for the preceding year and is adjusted in subsequent periods after the final data is compiled. Positive or negative capitation adjustments are made for Medicare enrollees with conditions requiring more or less healthcare services than assumed in the interim payments. Since the Company cannot reliably predict these adjustments, periodic changes in capitation amounts earned as a result of Risk Adjustment are recognized when those changes are communicated by the health plans to the Company.

HMO contracts also include provisions to share in the risk for enrollee hospitalization, whereby the Company can earn additional incentive revenue or incur penalties based upon the utilization of hospital services. Typically, any shared

risk deficits are not payable until and unless the Company generates future risk sharing surpluses, or if the HMO withholds a portion of the capitation revenue to fund any risk share deficits. At the termination of the HMO contract, any accumulated risk share deficit is typically extinguished. Due to the lack of access to information necessary to estimate the related costs, shared-risk amounts receivable from the HMOs are only recorded when such amounts are known. Risk pools for the prior contract years are generally final settled in the third or fourth quarter of the following fiscal year.

In addition to risk-sharing revenues, the Company also receives incentives under “pay-for-performance” programs for quality medical care, based on various criteria. These incentives are generally recorded in the third and fourth quarters of the fiscal year and recorded when such amounts are known.

Under full risk capitation contracts, an affiliated hospital enters into agreements with several HMOs, pursuant to which, the affiliated hospital provides hospital, medical, and other healthcare services to enrollees under a fixed capitation arrangement (“Capitation Arrangement”). Under the risk pool sharing agreement, the affiliated hospital and medical group agree to establish a Hospital Control Program to serve the enrollees, pursuant to which, the medical group is allocated a percentage of the profit or loss, after deductions for costs to affiliated hospitals. The Company participates in full risk programs under the terms of the PSA, with health plans whereby the Company is wholly liable for the deficits allocated to the medical group under the arrangement. The related liability is included in medical liabilities in the accompanying consolidated balance sheets at June 30, 2016 and March 31, 2016 (see “Medical Liabilities” in this Note 2, below).

#### *Medicare Shared Savings Program Revenue*

The Company, through its subsidiary ApolloMed ACO, participates in the MSSP, which is sponsored by the Centers for Medicare & Medicaid Services (“CMS”). The goal of the MSSP is to improve the quality of patient care and outcomes through more efficient and coordinated approach among providers. The MSSP allows ACO participants to share in cost savings it generates in connection with rendering medical services to Medicare patients. Payments to ACO participants, if any, will be calculated annually by CMS on cost savings generated by the ACO participant relative to the ACO participants’ cost savings benchmark. The MSSP is a relatively new program managed by CMS that has an evolving payment methodology. Revenues earned by ApolloMed ACO are uncertain, and, if such amounts are payable by the CMS, they will be paid on an annual basis significantly after the time earned, and will be contingent on various factors, including achievement of the minimum savings rate as determined by MSSP for the relevant period. Such payments are earned and made on an “all or nothing” basis. The Company considers revenue, if any, under the MSSP, as contingent upon the realization of program savings as determined by CMS, and are not considered earned and therefore are not recognized as revenue until notice from CMS that cash payments are to be imminently received.

### **Cash and Cash Equivalents**

Cash and cash equivalents consists of highly liquid investments with an initial maturity of three months or less at date of purchase to be cash equivalents.

### **Restricted Cash**

Restricted cash primarily consists of cash held as collateral to secure standby letters of credits as required by certain contracts. The certificates have an interest rate ranging from 0.05% to 0.15%.

### **Long-Lived Assets**

The Company reviews its long-lived assets including definite lived intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. The Company evaluates assets for potential impairment by comparing estimated future undiscounted net cash flows to the carrying amount of the assets. If the carrying amount of the assets exceeds the estimated future undiscounted cash flows, impairment is measured based on the difference between the carrying amount of the assets and fair value.

### **Goodwill and Indefinite-Lived Intangible Assets**

Under Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 350, *Intangibles – Goodwill and Other* (“ASC 350”), goodwill and indefinite-lived intangible assets are reviewed at least annually for impairment. Acquired intangible assets with definite lives are amortized over their individual useful lives.

At least annually, at the Company’s fiscal year end, the Company assesses whether there has been any impairment in the value of goodwill by first comparing the fair value to the net carrying value of the reporting unit. If the carrying value exceeds its estimated fair value, a second step is performed to compute the amount of the impairment. An impairment loss is recognized if the implied fair value of the asset being tested is less than its carrying value. In this event, the asset is written down accordingly. The fair values of goodwill are determined using valuation techniques based on estimates, judgments and assumptions the Company believes are appropriate in the circumstances.

At least annually, indefinite-lived intangible assets are tested for impairment. Impairment for intangible assets with indefinite lives exists if the carrying value of the intangible asset exceeds its fair value. The fair values of indefinite-lived intangible assets are determined using valuation techniques based on estimates, judgments and assumptions the Company believes are appropriate in the circumstances.

### Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable primarily consists of amounts due from third-party payors, including government sponsored Medicare and Medicaid programs, insurance companies, and amounts due from hospitals and patients. Accounts receivable are recorded and stated at the amount expected to be collected.

The Company maintains reserves for potential credit losses on accounts receivable. The Company reviews the composition of accounts receivable and analyzes historical bad debts, customer concentrations, customer credit worthiness, current economic trends and changes in customer payment patterns to evaluate the adequacy of these reserves. The Company also regularly analyses the ultimate collectability of accounts receivable after certain stages of the collection cycle using a look-back analysis to determine the amount of receivables subsequently collected and adjustments are recorded when necessary. Reserves are recorded primarily on a specific identification basis.

### Concentrations

The Company had major payors that contributed the following percentage of net revenue:

|                                  | Three Months<br>Ended June<br>30, 2016 |   | Three Months<br>Ended June 30,<br>2015 |   |
|----------------------------------|----------------------------------------|---|----------------------------------------|---|
| Governmental - Medicare/Medi-Cal | 23.6                                   | % | 31.1                                   | % |
| L.A Care                         | 14.5                                   | % | 13.9                                   | % |
| Allied Physicians                | 14.1                                   | % | *                                      |   |
| Health Net                       | *                                      |   | 12.4                                   | % |

\* Represents less than 10%

Receivables from major payors amounted to the following percentage of total accounts receivable:

Edgar Filing: Apollo Medical Holdings, Inc. - Form 10-Q

|                                  | June 30, 2016 |   | March 31, 2016 |   |
|----------------------------------|---------------|---|----------------|---|
| Governmental - Medicare/Medi-Cal | 33.4          | % | 39.3           | % |
| Allied Physicians                | 21.3          | % | 15.8           | % |

The Company maintains its cash and cash equivalents in bank deposit accounts, which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts; however, amounts in excess of the federally insured limit may be at risk if the bank experiences financial difficulties. As of June 30, 2016, approximately \$5.2 million was in excess of the FDIC limits.

The Company's business and operations are concentrated in one state, California. Any material changes by California with respect to strategy, taxation and economics of healthcare delivery, reimbursements, financial requirements or other aspects of regulation of the healthcare industry could have an adverse effect on the Company's operations and cost of doing business.

### Property and Equipment

Property and equipment is recorded at cost and depreciated using the straight-line method over the estimated useful lives of the respective assets. Cost and related accumulated depreciation on assets retired or disposed of are removed from the accounts and any resulting gains or losses are credited or charged to income. Computers and software are depreciated over 3 years. Furniture and fixtures are depreciated over 8 years. Machinery and equipment are depreciated over 5 years.

Property and equipment consisted of the following as of:

|                                                | June 30, 2016 | March 31, 2016 |
|------------------------------------------------|---------------|----------------|
| Website                                        | \$ 4,568      | \$ 4,568       |
| Computers                                      | 189,682       | 166,043        |
| Software                                       | 290,439       | 215,439        |
| Machinery and equipment                        | 389,330       | 351,090        |
| Furniture and fixtures                         | 118,027       | 114,127        |
| Leasehold improvements                         | 1,117,397     | 1,094,665      |
|                                                | 2,109,443     | 1,945,932      |
| Less accumulated depreciation and amortization | (767,459 )    | (697,959 )     |
|                                                | \$ 1,341,984  | \$ 1,247,973   |

Depreciation and amortization expense was \$69,500 and \$25,729 for the three months ended June 30, 2016 and 2015, respectively.

## Medical Liabilities

The Company is responsible for integrated care that the associated physicians and contracted hospitals provide to its enrollees under risk-pool arrangements. The Company provides integrated care to health plan enrollees through a network of contracted providers under sub-capitation and direct patient service arrangements, company-operated clinics and staff physicians. Medical costs for professional and institutional services rendered by contracted providers are recorded as cost of services in the accompanying consolidated statements of operations. Costs for operating medical clinics, including the salaries of medical personnel, are also recorded in cost of services, while non-medical personnel and support costs are included in general and administrative expense.

An estimate of amounts due to contracted physicians, hospitals, and other professional providers is included in medical liabilities in the accompanying consolidated balance sheets. Medical liabilities include claims reported as of the balance sheet date and estimates of incurred but not reported claims ("IBNR"). Such estimates are developed using actuarial methods and are based on many variables, including the utilization of health care services, historical payment patterns, cost trends, product mix, seasonality, changes in membership, and other factors. The estimation methods and the resulting reserves are periodically reviewed and updated. Many of the medical contracts are complex in nature and may be subject to differing interpretations regarding amounts due for the provision of various services. Such differing interpretations may not come to light until a substantial period of time has passed following the contract implementation. The Company has a \$20,000 per member professional stop-loss and \$200,000 per member stop-loss for Medi-Cal patients in institutional risk pools. Any adjustments to reserves are reflected in current operations.

The Company's medical liabilities were as follows:

|                                                                       | Three Months<br>Ended June<br>30, 2016 | Year Ended<br>March 31,<br>2016 |
|-----------------------------------------------------------------------|----------------------------------------|---------------------------------|
| Balance, beginning of period                                          | \$ 2,670,709                           | \$ 1,260,549                    |
| Incurring health care costs:                                          |                                        |                                 |
| Current year                                                          | 2,648,056                              | 7,844,329                       |
| Claims paid:                                                          |                                        |                                 |
| Current year                                                          | (994,774 )                             | (6,019,186)                     |
| Prior years                                                           | (1,634,291 )                           | (1,159,909)                     |
| Total claims paid                                                     | (2,629,065 )                           | (7,179,095)                     |
| Risk pool settlement                                                  | -                                      | -                               |
| Accrual for net (deficit) surplus from full risk capitation contracts | (177,659 )                             | 803,981                         |
| Adjustments                                                           | -                                      | (759,055 )                      |
| Balance                                                               | \$ 2,512,041                           | \$ 2,670,709                    |

## **Deferred Financing Costs**

At June 30, 2016 and March 31, 2015, there was \$0 and \$37,926 of deferred financing costs, respectively.

## **Income Taxes**

Federal and state income taxes are computed at currently enacted tax rates less tax credits using the asset and liability method. Deferred taxes are adjusted both for items that do not have tax consequences and for the cumulative effect of any changes in tax rates from those previously used to determine deferred tax assets or liabilities. Tax provisions include amounts that are currently payable, changes in deferred tax assets and liabilities that arise because of temporary differences between the timing of when items of income and expense are recognized for financial reporting and income tax purposes, changes in the recognition of tax positions and any changes in the valuation allowance caused by a change in judgment about the realizability of the related deferred tax assets. A valuation allowance is established when necessary to reduce deferred tax assets to amounts expected to be realized.

The Company uses a recognition threshold of more-likely-than-not and a measurement attribute on all tax positions taken or expected to be taken in a tax return in order to be recognized in the financial statements. Once the recognition threshold is met, the tax position is then measured to determine the actual amount of benefit to recognize in the financial statements.

## **Stock-Based Compensation**

The Company maintains a stock-based compensation program for employees, non-employees, directors and consultants, which is more fully described in Note 7. The value of stock-based awards so measured is recognized as compensation expense on a cumulative straight-line basis over the vesting terms of the awards, adjusted for expected forfeitures. The Company sells certain of its restricted common stock to its employees, directors and consultants with a right (but not obligation) of repurchase feature that lapses based on performance of services in the future.

The Company accounts for share-based awards granted to persons other than employees and directors under ASC 505-50 *Equity-Based Payments to Non-Employees*. As such the fair value of such shares is periodically re-measured using an appropriate valuation model and income or expense is recognized over the vesting period.

## **Fair Value of Financial Instruments**

The Company's accounting for Fair Value Measurement and Disclosures 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. This topic also establishes a fair value hierarchy which requires classification based on observable and unobservable inputs when measuring fair value. The fair value hierarchy distinguishes between assumptions based on market data (observable inputs) and an entity's own assumptions (unobservable inputs). The hierarchy consists of three levels:

Level one — Quoted market prices in active markets for identical assets or liabilities;

Level two — Inputs other than level one inputs that are either directly or indirectly observable; and

Level three — Unobservable inputs developed using estimates and assumptions, which are developed by the reporting entity and reflect those assumptions that a market participant would use.

Determining which category an asset or liability falls within the hierarchy requires significant judgment. The Company evaluates its hierarchy disclosures each quarter.

The carrying amount reported in the accompanying condensed consolidated balance sheets for cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximates fair value because of the short-term maturity of those instruments. The carrying amount for borrowings under the notes and lines of credit approximate fair value which is determined by using interest rates that are available for similar debt obligations with similar terms at the balance sheet date.

### *Warrant liability*

In October 2015, the Company issued a warrant in connection with the NMM Series A convertible preferred stock and stock purchase warrant financing ("2015 NMM") that required liability classification (see Note 7). The fair value of the warrant liability of approximately \$2.9 million in October 2015 was estimated at issuance using the Monte Carlo valuation model, using the following inputs: term of 5 years; risk free rate of 1.3%, no dividends, volatility of 63.3%, share price of \$6.00 per share based on the trading price of the Company's common stock adjusted for a marketability discount, and a 0% probability of redemption of the warrant shares issued along with the shares of the Company's convertible preferred stock issued in the NMM financing.



The fair value of the warrant liability of approximately \$2.8 million at March 31, 2016 was estimated using the Monte Carlo valuation model, using the following inputs: term of 4.5 years, risk free rate of 1.13%, no dividends, volatility of 65.7%, share price of \$5.93 per share based on the trading price of the Company's common stock adjusted for marketability discount, and a 0% probability of redemption of the warrant shares issued along with the shares of the Company's convertible preferred stock issued to NMM in October 2015. The fair value of the warrant liability of approximately \$2 million at June 30, 2016 issued to NMM in October 2015 was estimated using the Monte Carlo valuation model which used the following inputs: term of 4.3 years, risk free rate of 0.90%, no dividends, volatility of 64.4%, share price of \$5 per share based on the trading price of the Company's common stock adjusted for a marketability discount. The carrying amounts and fair values of the Company's financial instruments are presented below as of:

June 30, 2016

|                   | Fair Value Measurements |         |              |              |
|-------------------|-------------------------|---------|--------------|--------------|
|                   | Level 1                 | Level 2 | Level 3      | Total        |
| Liabilities:      |                         |         |              |              |
| Warrant liability | \$ -                    | \$ -    | \$ 1,988,889 | \$ 1,998,889 |

March 31, 2016

|                   | Fair Value Measurements |         |              |              |
|-------------------|-------------------------|---------|--------------|--------------|
|                   | Level 1                 | Level 2 | Level 3      | Total        |
| Liabilities:      |                         |         |              |              |
| Warrant liability | \$ -                    | \$ -    | \$ 2,811,111 | \$ 2,811,111 |

The following summarizes the activity of Level 3 inputs measured on a recurring basis for the three months ended June 30, 2016:

|                                                                          | Warrant Liability | Conversion Feature Liability | Total       |
|--------------------------------------------------------------------------|-------------------|------------------------------|-------------|
| Balance at March 31, 2015                                                | \$2,144,496       | \$ 442,358                   | \$2,586,854 |
| Loss on change in fair value of warrant and conversion feature liability | 164,124           | 49,594                       | 213,718     |

|                                                   |             |            |             |
|---------------------------------------------------|-------------|------------|-------------|
| Balance at June 30, 2015                          | \$2,308,620 | \$ 491,952 | \$2,800,572 |
| Balance at March 31, 2016                         | \$2,811,111 | \$ -       | \$2,811,111 |
| Gain on change in fair value of warrant liability | (822,222 )  | -          | (822,222 )  |
| Balance at June 30, 2016                          | \$1,988,889 | \$ -       | \$1,988,889 |

The gain on change in fair value of the warrant liability of \$822,222 for three months ended June 30, 2016 and loss on change in fair value of the warrant liability and conversion feature liability of (\$213,718) for the three months ended June 30, 2015, are included in the accompanying condensed consolidated statements of operations. The change in fair value during the three months ended June 30, 2015 is related to a warrant liability and embedded conversion feature in connection with a March 2014 financing transaction with NNA of Nevada, Inc. ("NNA"), the transaction was settled in October, 2015.

#### Non-Controlling Interests

The non-controlling interests recorded in the Company's consolidated financial statements includes the equity of those PPC's in which the Company has determined that it has a controlling financial interest and for which consolidation is required as a result of management contracts entered into with these entities owned by third-party physicians. The nature of these contracts provide the Company with a monthly management fee to provide the services described above, and as such, the adjustments to non-controlling interests in any period subsequent to initial consolidation would relate to either capital contributions or distributions by the non-controlling parties as well as income or losses attributable to certain non-controlling interests. Non-controlling interests also represent third-party minority equity ownership interests which are majority owned by the Company.

## Basic and Diluted Earnings per Share

Basic net income (loss) per share is calculated using the weighted average number of shares of the Company's common stock issued and outstanding during a certain period, and is calculated by dividing net income (loss) by the weighted average number of shares of the Company's common stock issued and outstanding during such period. Diluted net income (loss) per share is calculated using the weighted average number of common and potentially dilutive common shares outstanding during the period, using the as-if converted method for secured convertible notes, and the treasury stock method for options and warrants.

The following table sets forth the number of shares excluded from the computation of diluted earnings per share, as their inclusion would be anti-dilutive:

|                   | Three Months Ended June 30, |         |
|-------------------|-----------------------------|---------|
|                   | 2016                        | 2015    |
| Options           | 533,500                     | 387,031 |
| Warrants          | 199,500                     | 19,251  |
| Convertible Notes | -                           | 50,967  |
|                   | 733,000                     | 457,249 |

## New Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, Leases. This new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is currently evaluating the impact of the adoption of ASU 2016-02 on the consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting" (ASU 2016-09). This ASU makes several modifications to Topic 718 related to the accounting for forfeitures, employer tax withholding on share-based compensation, and the financial statement presentation of excess tax benefits or deficiencies. ASU 2016-09 also clarifies the statement of cash flows presentation for certain components of share-based awards. The standard is effective for interim and annual reporting

periods beginning after December 15, 2016, with early adoption permitted. The Company expects to adopt this guidance when effective and is currently evaluating the effect that the updated standard will have on its consolidated financial statements and related disclosures.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements – Going Concern (Topic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern ("ASU 2014-15"). This amendment prescribes that an entity should evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued. The amendments will become effective for the Company's annual and interim reporting periods beginning April 1, 2017. The Company will begin evaluating going concern disclosures based on this guidance upon adoption.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments - Overall (Topic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2016-01"). ASU 2016-01 addresses certain aspects of recognition, measurement, presentation and disclosures of financial instruments including the requirement to measure certain equity investments at fair value with changes in fair value recognized in net income. ASU 2016-01 will become effective for the Company beginning interim period April 1, 2018. The Company is currently evaluating the guidance to determine the potential impact on its financial condition, results of operations, cash flows and financial statement disclosures.

The FASB issued the following accounting standard updates related to Topic 606, Revenue Contracts with Customers:

ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09") in May 2014. ASU 2014-09 requires entities to recognize revenue through the application of a five-step model, which includes identification of the contract, identification of the performance obligations, determination of the transaction price, allocation of the transaction price to the performance obligations and recognition of revenue as the entity satisfies the performance obligations.

ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net) ("ASU 2016-08") in March 2016. ASU 2016-08 does not change the core principle of revenue recognition in Topic 606 but clarifies the implementation guidance on principal versus agent considerations.

ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing ("ASU 2016-10") in April 2016. ASU 2016-10 does not change the core principle of revenue recognition in Topic 606 but clarifies the implementation guidance on identifying performance obligations and the licensing implementation guidance, while retaining the related principles for those areas.

ASU No. 2016-11, Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting (SEC Update) ("ASU 2016-11") in May 2016. ASU 2016-11 rescinds SEC paragraphs pursuant to two SEC Staff Announcements at the March 3, 2016 EITF meeting. The SEC Staff is rescinding SEC Staff Observer comments that are codified in Topic 605 and Topic 932, effective upon adoption of Topic 606.

ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients in May 2016. ASU 2016-12 does not change the core principle of revenue recognition in Topic 606 but clarifies the implementation guidance on a few narrow areas and adds some practical expedients to the guidance.

These ASUs will become effective for the Company beginning interim period April 1, 2018. The Company is currently evaluating the impact of ASC 606, but at the current time does not know what impact the new standard will have on revenue recognized and other accounting decisions in future periods, if any, nor what method of adoption will be selected if the impact is material.

In April 2015, the FASB issued ASU 2015-03, Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. ASU 2015-03 requires the debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. The Company adopted this guidance during the three months ended June 30, 2016 and the adoption had no impact on the Company's consolidated financial statements.

In March 2016, FASB issued ASU 2016-07, Investments – Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting. ASU 2016-07 eliminates retroactive adjustment of an investment upon an investment qualifying for the equity method of accounting and requires the equity method investor to adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. ASU 2016-07 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted. We are currently evaluating the effects of this ASU on our consolidated financial statements.

### **Use of Estimates**

The preparation of financial statements in conformity with U.S. GAAP requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may materially differ from these estimates under different assumptions or conditions.

### 3. Goodwill and Intangible Assets

#### *Goodwill*

There was no change in Goodwill in the three months ended June 30, 2016 and March, 31 2016.

*Intangible assets, net consisted of the following:*

|                              | Weighted<br>Average<br>Life (Yrs) | Gross<br>June 30,<br>2016 | Accumulated<br>Amortization | Net<br>June 30,<br>2016 |
|------------------------------|-----------------------------------|---------------------------|-----------------------------|-------------------------|
| Indefinite Lived Assets:     |                                   |                           |                             |                         |
| Medicare License             | N/A                               | \$704,000                 | \$ -                        | \$704,000               |
| Amortized Intangible Assets: |                                   |                           |                             |                         |
| Acquired Technology          | 5                                 | 1,312,500                 | (65,625 )                   | 1,246,875               |
| NonCompete                   | 4                                 | 117,000                   | (67,722 )                   | 49,278                  |
| Network Relationships        | 5                                 | 220,000                   | (84,333 )                   | 135,667                 |
| Trade Name                   | 5                                 | 191,000                   | (68,766 )                   | 122,234                 |
|                              |                                   | \$2,544,500               | \$ (286,446 )               | \$2,258,054             |

|                              | Weighted<br>Average<br>Life (Yrs) | Gross<br>March 31,<br>2016 | Accumulated<br>Amortization | Net<br>March 31,<br>2016 |
|------------------------------|-----------------------------------|----------------------------|-----------------------------|--------------------------|
| Indefinite Lived Assets:     |                                   |                            |                             |                          |
| Medicare License             | N/A                               | \$704,000                  | \$ -                        | \$704,000                |
| Acquired Technology          | 5                                 | 1,312,500                  | -                           | 1,312,500                |
| Amortized Intangible Assets: |                                   |                            |                             |                          |
| Exclusivity                  | 4                                 | -                          | -                           | -                        |
| NonCompete                   | 4                                 | 117,000                    | (58,737 )                   | 58,263                   |
| Payor Relationships          | 5                                 | -                          | -                           | -                        |
| Network Relationships        | 5                                 | 220,000                    | (73,333 )                   | 146,667                  |
| Trade Name                   | 5                                 | 191,000                    | (59,217 )                   | 131,783                  |
|                              |                                   | \$2,544,500                | \$ (191,288 )               | \$2,353,212              |

There was no addition to the intangible assets in the three months ended June 30, 2016. The amortization expense for the three months ended June 30, 2016 and June 30, 2015 was \$95,158 and \$38,022, respectively.

#### 4. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consisted of the following:

|                           | June 30,<br>2016 | March 31,<br>2016 |
|---------------------------|------------------|-------------------|
| Accounts payable          | \$1,730,251      | \$2,036,615       |
| Physician share of MSSP   | 62,000           | 62,000            |
| Accrued compensation      | 1,940,465        | 2,156,339         |
| Income taxes payable      | 260,420          | 110,653           |
| Accrued interest          | -                | 4,500             |
| Accrued professional fees | 261,720          | 202,200           |
|                           | \$4, 254,856     | \$4,572,307       |

#### 5. Notes and Lines of Credit

Lines of credit consist of the following:

|                                                                                                                                                                             | June 30,<br>2016 | March 31,<br>2016 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|-------------------|
| Hendel \$100,000 revolving line of credit due to financial institution, bears interest at prime plus 4.5%, or (8%), interest only payable monthly and matures in March 2017 | \$88,764         | \$88,764          |
| BAHA \$150,000 revolving line of credit due to financial institution, bears interest at prime plus 3.0%, or (6.5%), interest only payable monthly and matures in March 2017 | 87,500           | 100,000           |
|                                                                                                                                                                             | \$176,264        | \$188,764         |

*Other lines of credit*

LALC has a line of credit of \$230,000 that accrues interest at a rate of 5% per annum. The Company has borrowed zero under this line of credit as of June 30, 2016 and March 31, 2016 and the line is auto-renewed on an annual basis.

Interest expense associated with the notes and lines of credit consisted of the following:

|                                        | Three Months Ended |            |
|----------------------------------------|--------------------|------------|
|                                        | June 30,           |            |
|                                        | 2016               | 2015       |
| Interest expense                       | \$ 2,659           | \$ 215,178 |
| Amortization of loan fees and discount | -                  | 145,224    |
|                                        | \$ 2,659           | \$ 360,402 |

The amount for the three months ended June 30, 2015 includes interest on the debt owed to NNA of approximately \$6.5 million that was settled in October of 2015.

## 6. Income Taxes

The Company uses the liability method of accounting for income taxes as set forth in ASC 740. Under the liability method, deferred taxes are determined based on differences between the financial statement and tax bases of assets and liabilities using enacted tax rates.

On an interim basis, the Company estimates what its anticipated annual effective tax rate will be and records a quarterly income tax provision (benefit) in accordance with the estimated annual rate, plus the tax effect of certain discrete items that arise during the quarter. As the fiscal year progresses, the Company refines its estimates based on actual events and financial results during the quarter. This process can result in significant changes to the Company's estimated effective tax rate. When this occurs, the income tax provision (benefit) is adjusted during the quarter in which the estimates are refined so that the year-to-date provision reflects the estimated annual effective tax rate. These changes, along with adjustments to the Company's deferred taxes and related valuation allowance, may create fluctuations in the overall effective tax rate from quarter to quarter.

Due to overall cumulative losses incurred in recent years, the Company maintained a full valuation allowance against its deferred tax assets as of June 30, 2016 and March 31, 2016.

The Company's effective tax rate for the three months ended June 30, 2016 differed from the U.S. federal statutory rate primarily due to operating losses that receive no tax benefit as a result of a valuation allowance recorded for such losses and the exclusion of loss entities from our overall estimated annual effective rate calculation under guidance from ASC 740-270-30-26a.

As of June 30, 2016 and March 31, 2016, the Company does not have any unrecognized tax benefits related to various federal and state income tax matters. The Company will recognize accrued interest and penalties related to unrecognized tax benefits in income tax expense.

The Company is subject to U.S. federal income tax as well as income tax of multiple state tax jurisdictions. The Company and its subsidiaries' state income tax returns are open to audit under the statute of limitations for the years ended January 31, 2012 onwards. The Company does not anticipate material unrecognized tax benefits within the next 12 months.

## **7. Stockholders' Equity**

### **Preferred Stock – Series A**

On October 14, 2015, Company entered into an agreement (the "Agreement") with NMM pursuant to which the Company sold to NMM, and NMM purchased from the Company, in a private offering of securities, 1,111,111 units, each unit consisting of one share of the Company's Preferred Stock (the "Series A") and a stock purchase warrant to purchase one share of the Company's common stock at an exercise price of \$9.00 per share. NMM paid the Company an aggregate \$10,000,000 for the units, the proceeds of which were used by the Company primarily to repay certain outstanding indebtedness owed by the Company to NNA and the balance for working capital.

The Series A has a liquidation preference in the amount of \$9.00 per share plus any declared and unpaid dividends. The Preferred Stock can be voted for the number of shares of Common Stock into which the Series A could then be converted, which initially is one-for-one. The Series A is convertible into Common Stock, at the option of NMM, at any time after issuance at an initial conversion rate of one-for-one, subject to adjustment in the event of stock dividends, stock splits and certain other similar transactions.

At any time prior to conversion and through the Redemption Expiration Date (as described below), the Series A may be redeemed at the option of NMM, on one occasion, in the event that the Company's net revenues for the four quarters ending September 30, 2016, as reported in its periodic filings under the Securities Exchange Act of 1934, as amended, are less than \$60,000,000. In such event, the Company shall have up to one year from the date of the notice of redemption by NMM to redeem the Series A, the warrants and any shares of Common Stock issued in connection with the exercise of any warrants theretofore (collectively the "Redeemed Securities"), for the aggregate price paid therefor by NMM, together with interest at a rate of 10% per annum from the date of the notice of redemption until the closing of the redemption. Any mandatory conversion described previously shall not take place until such time as it is determined that that conditions for the redemption of the Redeemed Securities have not been satisfied or, if such conditions exist, NMM has decided not to have such securities redeemed. As the redemption feature is not solely within the control of the Company, the Series A does not qualify as permanent equity and has been classified as mezzanine or temporary equity.

The common stock warrants may be exercised at any time after issuance and through October 14, 2020, for \$9.00 per share, subject to adjustment in the event of stock dividends and stock splits. The warrants are not separately transferable from the Preferred Stock. The warrants are subject to redemption in the event the Preferred Stock is redeemed by NMM, as described above. Accordingly, the Company has accounted for such warrants as liabilities and has marked such liability to its fair value at each subsequent reporting period. The Company determined the fair value of the warrant liability to be \$2,922,222 at inception which was estimated using the Monte Carlo valuation model (see Note 2) with the value of the Series A being the residual value of \$7,077,778.

Without the written consent of NMM, between the Closing Date and the nine-month anniversary of the Closing Date, the Company shall not acquire, sell all or substantially all of its assets to, effect a change of control, or merge, combine or consolidate with, any other Person engaged in the business of being a MSO, ACO or IPA, or enter into any agreement with respect to any of the foregoing.

### **Preferred Stock – Series B**

On March 30, 2016, Company entered into an agreement with NMM pursuant to which the Company sold to NMM, and NMM purchased from the Company, in a private offering of securities, 555,555 units, each Unit consisting of one share of the Company's Series B Preferred Stock ("Series B") and a warrant to purchase one share of the Company's common stock at an exercise price of \$10.00 per share. NMM paid the Company an aggregate \$4,999,995 for the units. The proceeds were allocated to each Series B share and Series B warrant based upon their relative fair values as each class of securities met the requirements for permanent equity classification. The estimated fair value of the warrant was estimated using a Black-Scholes equity allocation option pricing method. The Company used a comparable company lookback volatility rate of 65.8%, and a risk-free rate of 1.2% - commensurate with the expected term of 5-years. In valuing the Series B warrants, the Company used a comparable company lookback volatility rate of 65.8%, and a risk-free rate of 1.2% - commensurate with the expected term of 5-years.

The Preferred Stock has a liquidation preference in the amount of \$9.00 per share plus any declared and unpaid dividends. The Series B can be voted for the number of shares of Common Stock into which the Preferred Stock could then be converted, which initially is one-for-one. The Preferred Stock is convertible into Common Stock, at the option of NMM or mandatorily at any time prior to and including March 30, 2021, if the Company receives aggregate gross proceeds of not less than \$5,000,000 in one or more transactions (other than transactions with NMM), at an initial conversion rate of one-for-one, subject to adjustment in the event of stock dividends, stock splits and certain other similar transactions.

The warrants may be exercised at any time after issuance and through March 30, 2021, for \$10.00 per share, subject to adjustment in the event of stock dividends and stock splits.

### **Registration Rights**

On June 28, 2016, NNA and the Company entered into the Third Amendment (the “Third Amendment”) to the Registration Rights Agreement dated May 28, 2014, as amended by the First Amendment and Acknowledgement dated as of February 6, 2015, the Second Amendment and Conversion Agreement dated as of November 17, 2015, and the amendments thereto (collectively, the “Registration Agreement”). Pursuant to the Third Amendment, the Company has until April 28, 2017 to register NNA’s registrable securities on a registration statement filed with the SEC and the company has until the earlier of (i) October 27, 2017 or (ii) the 5th trading day after the date the Company is notified by the SEC that such registration statement will not be reviewed or will not be subject to further review to have such registration statement declared effective by the SEC. All other provisions of the Registration Agreement remain in full force and effect, including paying NNA liquidated damages of 1.5% of the total purchase price of the registrable securities owned by NNA, payable in shares of the Company’s common stock, if the Company does not comply with these deadlines.

### **Common Stock Issuance**

During the three months ended June 30, 2016, the Company received approximately \$132,000 from the exercise of certain warrants at an exercise price of \$1.15 per share.

### **Equity Incentive Plans**

The Company’s amended 2010 Equity Incentive Plan (the “2010 Plan”) allowed the Board to grant up to 1,200,000 shares of the Company’s common stock, and provided for awards including incentive stock options, non-qualified options, restricted common stock, and stock appreciation rights. As of June 30, 2015, there were no shares available

for grant.

On April 29, 2013 the Company's Board of Directors approved the Company's 2013 Equity Incentive Plan (the "2013 Plan"), pursuant to which 500,000 shares of the Company's common stock were reserved for issuance thereunder. The Company received approval of the 2013 Plan from the Company's stockholders on May 19, 2013. The Company issues new shares to satisfy stock option and warrant exercises under the 2013 Plan. As of June 30, 2016 there were no shares available for future grants under the 2013 Plan.

On December 15, 2015, the Company's Board of Directors approved the Company's 2015 Equity Incentive Plan (the "2015 Plan"), pursuant to which 1,500,000 shares of the Company's common stock were reserved for issuance thereunder and provides for awards, including incentive stock options, non-qualified options, restricted common stock, and stock appreciation rights. The Company will seek approval of the 2015 Plan from its stockholders at the next meeting of stockholders and must receive such approval prior to December 15, 2016 or the 2015 Plan will be null and void and any grants made under the 2015 Plan will be canceled. As the Company's board of directors controls approximately 62% of the ownership interest in the Company, stockholder approval of the 2015 Plan is considered perfunctory and accordingly the options were deemed to be granted as of the date of the board approval. As of June 30, 2016, there were approximately 1,126,000 shares available for future grants under the 2015 Plan.

## Options

Stock option activity for the three months ended June 30, 2016 is summarized below:

|                         | Shares    | Weighted<br>Average<br>Per Share<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Life<br>(Years) | Weighted<br>Average<br>Per Share<br>Intrinsic<br>Value |
|-------------------------|-----------|-------------------------------------------------------|-----------------------------------------------------|--------------------------------------------------------|
| Balance, March 31, 2016 | 1,064,150 | \$ 4.27                                               | 7.94                                                | \$ 2.27                                                |
| Granted                 | -         | -                                                     | -                                                   | -                                                      |
| Cancelled               | -         | -                                                     | -                                                   | -                                                      |
| Exercised               | -         | -                                                     | -                                                   | -                                                      |
| Expired                 | (36,000 ) | 6.49                                                  | -                                                   | -                                                      |
| Forfeited               | -         | -                                                     | -                                                   | -                                                      |
| Balance, June 30, 2016  | 1,028,150 | \$ 4.19                                               | 7.06                                                | \$ 2.15                                                |
| Vested, June 30, 2016   | 861,202   | \$ 3.68                                               | 6.78                                                | \$ 2.56                                                |

## ApolloMed ACO 2012 Equity Incentive Plan

On October 18, 2012, ApolloMed ACO's Board of Directors adopted the ApolloMed Accountable Care Organization, Inc. 2012 Equity Incentive Plan (the "ACO Plan") and reserved 9,000,000 shares of ApolloMed ACO's common stock for issuance thereunder. The purpose of the ACO Plan is to encourage selected employees, directors, consultants and advisers to improve operations and increase the profitability of ApolloMed ACO and encourage selected employees, directors, consultants and advisers to accept or continue employment or association with ApolloMed ACO.

The following table summarizes the restricted stock award in the ACO Plan during the three months ended June 30, 2016:

|                         | Shares    | Weighted-Average<br>Remaining<br>Vesting Life<br>(Years) | Weighted-Average<br>Per Share Fair<br>Value |
|-------------------------|-----------|----------------------------------------------------------|---------------------------------------------|
| Balance, March 31, 2016 | 3,752,004 | -                                                        | 0.07                                        |
| Granted                 | -         | -                                                        | -                                           |

|                        |           |   |         |
|------------------------|-----------|---|---------|
| Released               | -         | - | -       |
| Balance, June 30, 2016 | 3,752,004 | - | \$ 0.07 |
| Vested, end of year    | 3,752,004 | - | \$ 0.07 |

Awards of restricted stock under the ACO Plan vest (i) one-third on the date of grant; (ii) one-third on the first anniversary of the date of grant, if the grantee has remained in service continuously until that date; and (iii) one-third on the second anniversary of the date of grant if the grantee has remained in service continuously until that date.

As of June 30, 2016, total unrecognized compensation costs related to non-vested stock-based compensation arrangements granted under the Company's 2010, 2013 and 2015 Equity Plans was 742,648 and the weighted-average period of years expected to recognize those costs was 2.7 years.

Stock-based compensation expense related to common stock option awards is recognized over their respective vesting periods and was included in the accompanying condensed consolidated statement of operations as follows:

|                                   | Three Months Ended<br>June 30, |           |
|-----------------------------------|--------------------------------|-----------|
|                                   | 2016                           | 2015      |
| Stock-based compensation expense: |                                |           |
| Cost of services                  | \$ 1,227                       | \$ 1,227  |
| General and administrative        | 246,490                        | 82,621    |
|                                   | \$ 247,717                     | \$ 83,848 |

## Warrants

Warrants consisted of the following for the three months ended June 30, 2016:

|                               | Weighted<br>Average<br>Per Share<br>Intrinsic<br>Value | Number of<br>Warrants |
|-------------------------------|--------------------------------------------------------|-----------------------|
| Outstanding at March 31, 2016 | \$ 3.12                                                | 2,091,166             |
| Granted                       | -                                                      | -                     |
| Exercised                     | 4.46                                                   | (115,000 )            |
| Cancelled                     | -                                                      | -                     |
| Outstanding at June 30, 2016  | \$ 1.79                                                | 1,976,166             |

Weighted

Weighted

Edgar Filing: Apollo Medical Holdings, Inc. - Form 10-Q

| Exercise Price Per<br>Share | Warrants<br>Outstanding | Average<br>Remaining<br>Contractual Life | Warrants<br>Exercisable | Average<br>Exercise Price Per<br>Share |
|-----------------------------|-------------------------|------------------------------------------|-------------------------|----------------------------------------|
| \$1.15                      | 35,000                  | 0.08                                     | 35,000                  | \$ 1.15                                |
| \$4.00-\$5.00               | 164,500                 | 1.11                                     | 164,500                 | 4.46                                   |
| \$9.00-\$10.00              | 1,776,666               | 4.30                                     | 1,776,666               | 9.37                                   |
| \$1.15-\$10.00              | 1,976,166               | 3.96                                     | 1,976,166               | \$ 8.82                                |

## Authorized stock

At June 30, 2016 the Company was authorized to issue up to 100,000,000 shares of common stock. The Company is required to reserve and keep available out of the authorized but unissued shares of common stock such number of shares sufficient to effect the conversion of all outstanding preferred stock, the exercise of all outstanding warrants exercisable into shares of common stock, and shares granted and available for grant under the Company's stock option plans. The amount of shares of common stock reserved for these purposes is as follows at June 30, 2016:

|                                     |            |
|-------------------------------------|------------|
| Common stock issued and outstanding | 5,998,518  |
| Warrants outstanding                | 1,976,166  |
| Stock options outstanding           | 1,028,150  |
| Preferred stock outstanding         | 1,666,666  |
|                                     | 10,669,500 |

## 8. Commitments and Contingencies

### Regulatory Matters

As a risk-bearing organization, the Company is required to follow regulations of the California Department of Managed Health Care ("DMHC"). The Company must comply with a minimum working capital requirement, Tangible Net Equity ("TNE") requirement, cash-to-claims ratio and claims payment requirements prescribed by the DMHC. TNE is defined as net assets less intangibles, less non-allowable assets (which include amounts due from affiliates), plus subordinated obligations. The DMHC determined that, as of February 28, 2016, MMG, was not in compliance with the DMHC's positive TNE requirement for a Risk Bearing Organization ("RBO"). As a result, the DMHC required MMG to develop and implement a corrective action plan ("CAP") for such deficiency. CAP has been submitted and is under review by DMHC.

### Legal

On May 16, 2014, Lakeside Medical Group, Inc. and Regal Medical Group, Inc., two independent physician associations who compete with the Company in the greater Los Angeles area, filed an action against the Company and two affiliates of the Company, MMG and AMH, in Los Angeles County Superior Court. The complaint alleged that the Company and its two affiliates made misrepresentations and engaged in other acts in order to improperly solicit physicians and patient-enrollees from Plaintiffs. The Complaint sought compensatory and punitive damages. On June

30, 2014, the Company and its affiliates filed a motion requesting the Court to stay the court proceeding and order the parties to arbitrate this dispute subject to existing arbitration agreements. On August 11, 2014, the Plaintiffs filed a request for dismissal without prejudice of the action. On August 12, 2014, the Plaintiffs served the Company and its affiliates with Demands for Arbitration before Judicial Arbitration Mediation Services (“JAMS”) in Los Angeles. The Company is currently examining the merits of the claims to be arbitrated, and it is too early to state whether the likelihood of an unfavorable outcome is probable or remote, or to estimate the potential loss if the outcome should be negative. The Company is aware that punitive damages previously sought in the court proceeding are not available in arbitration. The Company and its affiliates are preparing a defense to the allegations and the Company intends to vigorously defend the action.

On August 28, 2014, Lakeside Medical Group, Inc. and Regal Medical Group, Inc., filed a similar lawsuit against Warren Hosseinion, the Company’s Chief Executive Officer. Dr. Hosseinion is defending the action and is currently being indemnified by the Company subject to the terms of an indemnification agreement and the Company’s charter. The Company has an existing Directors and Officers insurance policy. On September 9, 2014, Dr. Hosseinion filed a motion requesting the Court to stay the court proceeding and, pursuant to existing arbitration agreements, order the parties to arbitrate the dispute as part of the pending arbitration proceedings before JAMS (as discussed above). On October 29, 2014, the Plaintiffs filed a request for dismissal without prejudice of the action. On November 13, 2014, Plaintiffs served Dr. Hosseinion with Demands for Arbitration before JAMS in Los Angeles, and on November 19, 2014, the parties agreed to consolidate the two proceedings against Dr. Hosseinion with the two existing proceedings against the Company and its affiliates. The parties are currently pursuing mediation of the dispute. The Company continues to examine the merits of the claims to be arbitrated against Dr. Hosseinion, and it is too early to state whether the likelihood of an unfavorable outcome is probable or remote, or to estimate the potential loss if the outcome should be negative. The Company is aware that punitive damages previously sought in the court proceeding against Dr. Hosseinion are not available in arbitration.

In the ordinary course of the Company’s business, the Company becomes involved in pending and threatened legal actions and proceedings, most of which involve claims of medical malpractice related to medical services provided by the Company’s affiliated hospitalists. The Company may also become subject to other lawsuits which could involve significant claims and/or significant defense costs. The Company believes, based upon the Company’s review of pending actions and proceedings, that the outcome of such legal actions and proceedings will not have a material adverse effect on the Company’s business, financial condition, results of operations, or cash flows. The outcome of such actions and proceedings, however, cannot be predicted with certainty and an unfavorable resolution of one or more of them could have a material adverse effect on the Company’s business, financial condition, results of operations, or cash flows in a future period.

## 9. Related Party Transactions

On January 15, 2015, AMM entered into a Consulting and Representation Agreement (the “2015 Augusta Consulting Agreement”) with Flacane Advisors, Inc. (the “Augusta Consultant”), which was effective from January 15, 2015, superseded the prior agreement with the Augusta Consultant, and remained in effect until March 31, 2015 and was in place through December 31, 2015. On January 12, 2016, the Company entered into a new consulting agreement with Mr. Gary Augusta, the President of Flacane Advisors, Inc. and the Company’s Executive Chairman of the Board of Directors (the “2016 Augusta Consulting Agreement”) to replace the substantially similar 2015 Augusta Consulting Agreement that expired by its terms on December 31, 2015. Under the 2016 Augusta Consulting Agreement, the Augusta Consultant is paid \$25,000 per month to provide business and strategic services to the Company; and Augusta Consultant is also eligible to receive options to purchase shares of the Company’s common stock as determined by the Company’s Board of Directors. In addition, Mr. Augusta is subject to a Directors Agreement with the Company dated March 7, 2012. During the years ended March 31, 2016 and 2015, the Company incurred approximately \$770,000 and \$65,000, respectively, of an aggregate of consulting expense and reimbursement of out of pocket expenses in connection with the 2015 Augusta Consulting Agreement and 2016 Augusta Consulting Agreement. The Company owed the Augusta Consultant approximately \$0 and \$9,500, at June 30, 2016 and March 31, 2016, respectively.

As of June 30, 2016 and March 31, 2016, accounts payable in the condensed consolidated balance sheets include \$0 and \$104,500, respectively, for principal and accrued interest owed to a 9% note holder who is also a shareholder of the Company.

In September 2015, the Company entered into a note receivable with Rob Mikitarian, a minority owner in APS, in the amount of approximately \$150,000. The note accrues interest at 3% per annum and is due on or before September 2017. At June 30, 2016 and March 31, 2016, the balance of the note was approximately \$150,000 and \$150,000, respectively, and is included in other receivables in the accompanying condensed consolidated balance sheets.

In September 2015, the Company entered into a note receivable with Dr. Liviu Chindris, a minority owner in APS, in the amount of approximately \$105,000. The note accrues interest at 3% per annum and is due on or before September 2017. At June 30, 2016 and March 31, 2016, the balance of the note was approximately \$105,000 and \$105,000, respectively, and is included in other receivables in the accompanying condensed consolidated balance sheets.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following management's discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements and the notes thereto included in this Quarterly Report. In addition, reference is made to our audited consolidated financial statements and notes thereto and related Management's Discussion and Analysis of Financial Condition and Results of Operations included in our most recent Annual Report on Form 10-K for the year ended March 31, 2016, filed with the SEC on June 29, 2016.*

*In this Quarterly Report, unless otherwise expressly stated or the context otherwise requires, "ApolloMed," "we," "us" and "our" refer to Apollo Medical Holdings, Inc., a Delaware corporation, its subsidiaries and its consolidated affiliates. Our affiliated professional organizations are separate legal entities that provide physician services primarily in California and with which we have management agreements. For financial reporting purposes we consolidate the revenues and expenses of all our practice groups that we own or manage because we have a controlling financial interest in these practices based on applicable accounting rules and as described in our accompanying financial statements. References to "practices" or "practice groups" refer to our subsidiary-management company and the affiliated professional organizations of Apollo that provide medical services, unless otherwise expressly stated or the context otherwise requires.*

*The following discussion contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 regarding future events and the future results of Apollo that are based on management's current expectations, estimates, projections, and assumptions about our business. Words such as "may," "will," "could," "should," "target," "potential," "project," "expects," "anticipates," "intends," "plans," "believes," "sees," "estimates" and variations and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements due to numerous factors, including, but not limited to, those discussed in our most recent Annual Report on Form 10-K, including the section entitled "Risk Factors", as well as those discussed from time to time in the Company's other SEC filings and reports. In addition, such statements could be affected by general industry and market conditions. Such forward-looking statements speak only as of the date of this Report or, in the case of any document incorporated by reference, the date of that document, and we do not undertake any obligation to update any forward-looking statement to reflect events or circumstances after the date of this Report, or for changes made to this document by wire services or Internet service providers. If we update or correct one or more forward-looking statements, investors and others should not conclude that we will make additional updates or corrections with respect to other forward-looking statements.*

### Overview

We are a patient-centered, physician-centric integrated population health management company, working to provide coordinated, outcomes-based medical care in a cost-effective manner. We have built a company and culture that is focused on physicians providing high quality care, population management and care coordination for patients, particularly for senior patients and patients with multiple chronic conditions. We believe that we are well-positioned to take advantage of changes in the U.S. healthcare industry as there is a growing national movement towards value based healthcare centered on the triple aim of patient satisfaction, high-quality care and cost efficiency.

We operate in one reportable segment, the healthcare delivery segment, and implement and operate innovative health care models to create a patient-centered, physician-centric experience. Accordingly, we report our consolidated financial statements in the aggregate, including all of our activities in one reportable segment. We have the following integrated, synergistic operations:

- Hospitalists, which includes our contracted physicians who focus on the delivery of comprehensive medical care to hospitalized patients;
- An ACO, which focuses on the provision of high-quality and cost-efficient care to Medicare FFS patients;
- MMG, which contracts with physicians and provides care to Medicare, Medicaid, commercial and dual eligible patients on both fee-for-service and risk and value based fee bases;
- Clinics, which provide primary care and specialty care in the Greater Los Angeles area;
- Palliative care, home health and hospice services, which include, our at-home, pain management and final stages of life services; and
- Cloud and mobile-based population and patient technology platform.

Our revenue streams are diversified among our various operations and contract types, and include:

- Traditional fee-for-service reimbursement, which is the primary revenue source for our clinics and palliative care; and
- Risk and value-based contracts with health plans, IPAs, hospitals and the CMS's MSSP, which are the primary revenue sources for our hospitalists, ACO and IPAs.

We serve Medicare, Medicaid, HMO and uninsured patients in California. We primarily provide services to patients that are covered by private or public insurance, although we do derive a small portion of our revenue from non-insured patients. We provide care coordination services to each major constituent of the healthcare delivery system, including patients, families, primary care physicians, specialists, acute care hospitals, alternative sites of inpatient care, physician groups and health plans.

ApolloMed has built a company and culture that is focused on physicians providing high quality care, population management and care coordination for patients, particularly for senior patients and patients with multiple chronic conditions. Our goal is to transform the delivery of healthcare services in the communities we serve by implementing innovative population health models and creating a patient-centered, physician-centric experience in a high performance environment of integrated care.

The initial business owned by ApolloMed is AMH, a hospitalist company, incorporated in California in June, 2001 and began operations at Glendale Memorial Hospital. Through a reverse merger, ApolloMed became a publicly held company in June 2008. ApolloMed was initially organized around the admission and care of patients at inpatient facilities such as hospitals. We have grown our inpatient strategy in a competitive market by providing high-quality care and innovative solutions for our hospital and managed care clients. In 2012, we formed an ACO, ApolloMed ACO, and an IPA, MMG, and in 2013 we expanded our service offering to include integrated inpatient and outpatient. In 2014, we added several complementary operations by acquiring an IPA, outpatient primary care and specialty clinics, as well as hospice/palliative care and home health entities. In January 2016, the Company formed ApolloCare which acquired certain technology and other assets of Healarium, Inc., which provides the Company with cloud and mobile-based population health management platform that includes digital care plans, a case management module, connectivity with multiple healthcare tracking devices and the ability to integrate with multiple electronic health records to capture clinical data.

Our physician network consists of hospitalists, primary care physicians and specialist physicians primarily through our owned and affiliated physician groups. We operate through the following subsidiaries: AMM, PCCM, VMM and ApolloMed ACO. Through our wholly-owned subsidiary, AMM, we manage affiliated medical groups, which consist of AMH, MMG, SCHC, and BAHA. Through our wholly-owned subsidiary, PCCM, we manage LALC, and through our wholly-owned subsidiary VMM, we manage Hendel. We also have a controlling interest in APS, which owns two Los Angeles-based companies, Best Choice Hospice Care LLC and Holistic Health Home Health Care Inc. AMM, PCCM and VMM each operate as a physician practice management company and are in the business of providing management services to physician practice corporations under long-term management service agreements. Our ACO participates in the MSSP, the goal of which is to improve the quality of patient care and outcomes through more efficient and coordinated approach among providers. Revenues earned by ApolloMed ACO are uncertain, and, if such amounts are payable, they will be paid on an annual basis significantly after the time earned, and will be contingent on various factors, including achievement of the minimum savings rate as determined by MSSP for the relevant period.

## Recent Developments

During the three-month period ended June 30, 2016, in furtherance of the development of our business, we entered into two new management service agreements and three hospitalist service agreements.

**Results of Operations**

The following sets forth selected data from our results of operations for the periods presented:

|                                                                                   | Three Months Ended June 30, |       |                |       |
|-----------------------------------------------------------------------------------|-----------------------------|-------|----------------|-------|
|                                                                                   | 2016                        |       | 2015           |       |
| Net revenues                                                                      | \$ 12,371,673               | 100 % | \$ 10,204,125  | 100 % |
| Costs and expenses                                                                |                             |       |                |       |
| Cost of services                                                                  | 10,133,005                  | 82 %  | 7,567,868      | 74 %  |
| General and administrative                                                        | 3,836,475                   | 31 %  | 4,237,203      | 42 %  |
| Depreciation and amortization                                                     | 164,658                     | 1 %   | 63,751         | 1 %   |
| Total costs and expenses                                                          | 14,134,138                  | 114 % | 11,868,822     | 116 % |
| Loss from operations                                                              | (1,762,465 )                | -14 % | (1,664,697 )   | -16 % |
| Other (expense) income                                                            |                             |       |                |       |
| Interest expense                                                                  | (2,659 )                    | 0 %   | (360,402 )     | -4 %  |
| Gain (loss) on change in fair value of warrant and conversion feature liabilities | 822,222                     | 7 %   | (213,718 )     | -2 %  |
| Other income                                                                      | 1,971                       | 0 %   | 101,004        | 1 %   |
| Total other income (expense), net                                                 | 821,534                     | 7 %   | (473,116 )     | -5 %  |
| Loss before (benefit) provision for income taxes                                  | (940,931 )                  | -8 %  | (2,137,813 )   | -21 % |
| (Benefit) provision for income tax                                                | (41,553 )                   | 0 %   | 92,691         | 1 %   |
| Net loss                                                                          | (899,378 )                  | -7 %  | (2,230,504 )   | -22 % |
| Net income attributable to noncontrolling interest                                | (415,879 )                  | -3 %  | (251,862 )     | -2 %  |
| Net loss attributable to Apollo Medical Holdings, Inc.                            | \$(1,315,257 )              | -11 % | \$(2,482,365 ) | -24 % |

*Three Months Ended June 30, 2016 Compared to Three Months Ended June 30, 2015*

*Net revenues*

Net revenues for the three months ended June 30, 2016 increased by approximately \$2.2 million, or 21%, as compared to the same period of 2015. The increase in revenue was primarily due to an increase of approximately \$1.0 million in MMG revenue due to an increase in patient lives. New hospital contracts resulted in to an increase in revenue for BAHA and AMH by \$0.9 million and \$0.7 million respectively, while Home Health and LALC revenue declined \$0.3 million and \$0.1 million respectively due to decline in patient lives and visits.

#### *Cost of services*

Cost of services for the three months ended June 30, 2016 increased by approximately \$2.6 million, or 34%, as compared to the same period of 2015. Cost of services increase was primarily related to approximately \$1.2 million in MMG increase in claims costs due to increase patient lives and approximately \$0.3 million for retroactive true-up in pharmacy claims cost of LA Care patients. AMH and BAHA Cost of services increased approximately \$0.8 million and \$0.5 million due to the incremental costs associated with new hospital contracts. These amounts were offset by \$0.2 million decrease in costs related to ACC which was discontinued in the year ended March 31, 2016.

#### *General and administrative*

General and administrative costs for the three months ended June 30, 2016 decreased by approximately \$0.4 million, or 9%, as compared to the same period of 2015. Approximately \$0.2 million of the decrease in BCHC from cost management initiatives, \$0.1 million decrease was in HCHHA for marketing expenses and \$0.1 million for MMG related to reduction of overhead expense.

#### *Depreciation and amortization*

Depreciation and amortization increased by approximately \$0.1 million, or 158%, as compared to the same period of 2015. The increase is primarily related to the amortization of technology acquired by ApolloCare, which was put in use in April, 2016.

*Interest expense*

Interest expense decreased by approximately \$0.4 million, or 99%, as compared to the same period of 2015. The decrease in interest expense is due to our paying off approximately \$6.5 million in debt owed to NNA in October, 2015, during the fiscal year 2016.

*Gain on change in fair value of warrant and conversion feature liabilities*

There was a gain on the change in fair value of the warrant liability of \$0.8 million as compared to a loss on the change in fair value of the warrant liability and conversion feature of approximately \$0.2 million, a difference of \$1 million, or 485%, as compared to the same period of 2015. This increase resulted from the change in the fair value measurement of the Company's warrants issued to NMM in October 2015, which consider among other things, expected term, the volatility of the Company's share price, interest rates, and the probability of additional financing.

*Other*

Other income decreased by approximately \$0.1 million, or 98%, as compared to the same period of 2015 primarily due to the \$96,000 Affordable Care Act incentive received by AKM during the three months ended June 30, 2015.

*Income tax provision*

Income tax provision decreased approximately \$0.1 million, or 145%, as compared to the same period of 2015, resulting in a net tax benefit. The benefit is driven by the projected effective tax rate of the entities for the year ending March 31, 2017 and the difference in the Net Income for the quarters ended June 30, 2015 and June 30, 2016.

*Net income attributable to non-controlling interests*

Net income attributable to non-controlling interests increased approximately \$0.2 million, or 65%, as compared to the same period of 2015.

### ***Liquidity and Capital Resources***

We have a history of operating losses. We had net loss of approximately \$0.9 million and approximately \$2.2 million for the three months ended June 30, 2016 and 2015, respectively. We had negative cash flow from operations of approximately \$2.3 million and approximately \$0.5 million for the three months ended June 30, 2016 and 2015, respectively. Cash flows used in investing activities were approximately \$0.2 and \$0.0 million for the three months ended June 30, 2016 and 2015, respectively. Cash flows used in financing activities were approximately \$0.3 million and approximately \$0.6 for the three months ended June 30, 2016 and 2015. We expect to have positive cash flow from operations for our 2017 fiscal year.

As of June 30, 2016 we have an accumulated deficit of approximately \$30 million. At June 30, 2016, we had cash equivalents of approximately \$6.5 million compared to cash and cash equivalents of approximately \$9.3 million at March 31, 2016. At June 30, 2016, we had net borrowings totaling approximately \$0.2 million compared to net borrowings at March 31, 2016 of approximately \$0.2 million and availability under lines of credit of approximately \$0.5 million.

To date, we have funded our operations from a combination of internally generated cash flow and external sources, including the proceeds from the issuance of equity and/or debt securities. We expect to continue to fund our working capital requirements, capital expenditures and payments of principal and interest on outstanding indebtedness, with cash on hand, cash flows from operations, available borrowings under our lines of credit and, if available, additional financings of equity and/or debt. Management believes that the Company has sufficient liquidity to meet its obligation for at least the next twelve months through September 30, 2017.

For the three months ended June 30, 2016, cash used in operating activities was approximately \$2.3 million. This was the result of net loss of \$0.9 million plus the negative change in working capital of \$1.2 million and the add-backs of non-cash expenses of \$0.2 million. Non-cash expenses primarily include provision for doubtful accounts, depreciation and amortization expense, stock-based compensation expense, amortization of deferred financing costs and the change in the fair value of the warrant and conversion feature liabilities. Cash provided by changes in working capital was primarily due to the \$0.8 million increase in accounts receivable, decrease of \$0.2 million in medical liabilities, \$0.2 increase in prepaid expenses and advances, \$0.3 decrease in accounts payable and accrued liabilities off-set by the \$0.3 million decrease in other receivables.

For the three months ended June 30, 2016, cash used in investing activities was approximately \$0.2 million and was the result of cash used for the purchase of fixed assets.

For the three months ended June 30, 2016, net cash used by financing activities was \$0.3 million which includes \$0.4 million distribution to a non-controlling interest shareholder and \$0.1 million proceeds from the exercise of warrants.

## MMG

The DMHC oversees the performance of RBO in California. RBO is measured for TNE, Working Capital, Cash to Claims ratio and Claims Timeliness. MMG is an RBO in California and is required to maintain positive TNE. In the fourth quarter of the year ended March 31, 2016, MMG reported negative TNE. MMG submitted a corrective action plan with DMHC. MMG has up to one year to cure the deficiency. Based on our current projections, we believe that MMG will achieve positive TNE by the third quarter of the fiscal year ended March 31, 2017.

## Lines of credit

Hendel has a \$100,000 revolving line of credit with MUFG Union Bank, N.A., of which \$88,764 was outstanding at June 30, 2016 and March 31, 2016. Borrowings under the line of credit bear interest at the prime rate (as defined) plus 4.50% (8.00% per annum at June 30, 2016 and March 31, 2016), interest only is payable monthly, and the line of credit matures March 31, 2017. The line of credit is unsecured.

LALC has a line of credit of \$230,000 with JPMorgan Chase Bank, N.A. Borrowing under the line of credit bears interest at a rate of 5% and is auto renewed on an annual basis. We have not borrowed any amount under this line of credit as of March 31, 2016 and 2015. The line of credit is unsecured.

BAHA has a line of credit of \$150,000 with First Republic Bank. Borrowings under the line of credit bear interest at the prime rate (as defined) plus 3.0% (6.5% per annum at June 30, 2016 and March 31, 2016). We have a balance of \$87,500 and \$100,000 as of June 30, 2016 and March 31, 2016, respectively. The line of credit is unsecured.

***Concentration of Payors***

Receivables from (Governmental - Medicare/Medi-Cal) amounted to 33.4% and 39.3% of total accounts receivable as of June 30, 2016 and March 31, 2016, respectively. Receivables from Allied Physicians amounted to 21.3% and 15.8% of accounts receivable as of June 30, 2016 and March 31, 2016, respectively. The Company anticipates that Medicare/MediCal and Allied Physicians will continue to be a significant payor.

***Intercompany Loans***

Each of AMH, ACC, MMG, AKM and SCHC has entered into an Intercompany Loan Agreement with AMM under which AMM has agreed to provide a revolving loan commitment to each of the affiliated entities in an amount set forth in each Intercompany Loan Agreement. Each Intercompany Loan Agreement provides that AMM's obligation to make any advances automatically terminates concurrently with the termination of the Management Agreement with the applicable affiliated entity. In addition, each Intercompany Loan Agreement provides that (i) any material breach by Dr. Hosseinion of the applicable Physician Shareholder Agreement or (ii) the termination of the Management Agreement with the applicable affiliated entity constitutes an event of default under the Intercompany Loan Agreement. The following tables summarize the various intercompany loan agreements for the three months ended June 30, 2016 and for the year ended March 31, 2016.

| Entity | Facility     | Expiration | Interest<br>Rate<br>per<br>Annum | Three Months Ended June 30, 2016       |                   |                                       |                                      |
|--------|--------------|------------|----------------------------------|----------------------------------------|-------------------|---------------------------------------|--------------------------------------|
|        |              |            |                                  | Maximum<br>Balance<br>During<br>Period | Ending<br>Balance | Principal<br>Paid<br>During<br>Period | Interest<br>Paid<br>During<br>Period |
| AMH    | \$10,000,000 | 30-Sep-18  | 10 %                             | \$2,447,498                            | \$2,331,386       | \$-                                   | \$-                                  |
| ACC    | 1,000,000    | 31-Jul-18  | 10 %                             | 1,277,843                              | 1,267,843         | 10,000                                | -                                    |
| MMG    | 2,000,000    | 1-Feb-18   | 10 %                             | 1,907,270                              | 1,849,211         | -                                     | -                                    |
| AKM    | 5,000,000    | 30-May-19  | 10 %                             | -                                      | -                 | -                                     | -                                    |
| SCHC   | 5,000,000    | 21-Jul-19  | 10 %                             | 2,867,796                              | 2,864,848         | -                                     | -                                    |
| Total  | \$23,000,000 |            |                                  | \$8,500,406                            | \$8,313,288       | \$10,000                              | \$-                                  |

| Entity | Facility     | Expiration | Interest<br>Rate<br>per<br>Annum | Year Ended March 31, 2016              |                   |                                       |                                      |
|--------|--------------|------------|----------------------------------|----------------------------------------|-------------------|---------------------------------------|--------------------------------------|
|        |              |            |                                  | Maximum<br>Balance<br>During<br>Period | Ending<br>Balance | Principal<br>Paid<br>During<br>Period | Interest<br>Paid<br>During<br>Period |
| AMH    | \$10,000,000 | 30-Sep-18  | 10 %                             | \$2,240,452                            | \$2,179,721       | \$-                                   | \$-                                  |
| ACC    | 1,000,000    | 31-Jul-18  | 10 %                             | 1,318,874                              | 1,277,843         | -                                     | -                                    |

|       |              |           |    |   |             |             |           |     |
|-------|--------------|-----------|----|---|-------------|-------------|-----------|-----|
| MMG   | 2,000,000    | 1-Fed-18  | 10 | % | 1,586,123   | 1,586,123   | -         | -   |
| AKM   | 5,000,000    | 30-May-19 | 10 | % | 146,280     | -           | 146,280   | -   |
| SCHC  | 5,000,000    | 21-Jul-19 | 10 | % | 3,231,880   | 2,852,510   | 56,287    | -   |
| Total | \$23,000,000 |           |    |   | \$8,523,609 | \$7,896,197 | \$202,567 | \$- |

### Critical Accounting Policies

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and potentially result in materially different results under different assumptions and conditions. We believe that our critical accounting policies are limited to those described in the Critical Accounting Policies section of Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2016.

### Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, Leases. This new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is currently evaluating the impact of the adoption of ASU 2016-02 on the consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting" (ASU 2016-09). This ASU makes several modifications to Topic 718 related to the accounting for forfeitures, employer tax withholding on share-based compensation, and the financial statement presentation of excess tax benefits or deficiencies. ASU 2016-09 also clarifies the statement of cash flows presentation for certain components of share-based awards. The standard is effective for interim and annual reporting periods beginning after December 15, 2016, with early adoption permitted. The Company expects to adopt this guidance when effective and is currently evaluating the effect that the updated standard will have on its consolidated financial statements and related disclosures.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements – Going Concern (Topic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern ("ASU 2014-15"). This amendment prescribes that an entity should evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued. The amendments will become effective for the Company's annual and interim reporting periods beginning April 1, 2017. The Company will begin evaluating going concern disclosures

based on this guidance upon adoption.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments - Overall (Topic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2016-01"). ASU 2016-01 addresses certain aspects of recognition, measurement, presentation and disclosures of financial instruments including the requirement to measure certain equity investments at fair value with changes in fair value recognized in net income. ASU 2016-01 will become effective for the Company beginning interim period April 1, 2018. The Company is currently evaluating the guidance to determine the potential impact on its financial condition, results of operations, cash flows and financial statement disclosures.

The FASB issued the following accounting standard updates related to Topic 606, Revenue Contracts with Customers:

ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09") in May 2014. ASU 2014-09 requires entities to recognize revenue through the application of a five-step model, which includes identification of the contract, identification of the performance obligations, determination of the transaction price, allocation of the transaction price to the performance obligations and recognition of revenue as the entity satisfies the performance obligations.

ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net) ("ASU 2016-08") in March 2016. ASU 2016-08 does not change the core principle of revenue recognition in Topic 606 but clarifies the implementation guidance on principal versus agent considerations.

ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing ("ASU 2016-10") in April 2016. ASU 2016-10 does not change the core principle of revenue recognition in Topic 606 but clarifies the implementation guidance on identifying performance obligations and the licensing implementation guidance, while retaining the related principles for those areas.

ASU No. 2016-11, Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting (SEC Update) ("ASU 2016-11") in May 2016. ASU 2016-11 rescinds SEC paragraphs pursuant to two SEC Staff Announcements at the March 3, 2016 EITF meeting. The SEC Staff is rescinding SEC Staff Observer comments that are codified in Topic 605 and Topic 932, effective upon adoption of Topic 606.

ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients in May 2016. ASU 2016-12 does not change the core principle of revenue recognition in Topic 606 but clarifies the implementation guidance on a few narrow areas and adds some practical expedients to the guidance.

These ASUs will become effective for the Company beginning interim period April 1, 2018. The Company is currently evaluating the impact of ASC 606, but at the current time does not know what impact the new standard will have on revenue recognized and other accounting decisions in future periods, if any, nor what method of adoption will be selected if the impact is material.

In April 2015, the FASB issued ASU 2015-03, Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. ASU 2015-03 requires the debt issuance costs related to a recognized debt

liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. The Company adopted this guidance during the three months ended June 30, 2016 and the adoption had no impact on the Company's consolidated financial statements.

In March 2016, FASB issued ASU 2016-07, Investments – Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting. ASU 2016-07 eliminates retroactive adjustment of an investment upon an investment qualifying for the equity method of accounting and requires the equity method investor to adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. ASU 2016-07 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted. We are currently evaluating the effects of this ASU on our consolidated financial statements.

### **Off Balance Sheet Arrangements**

As of June 30, 2016, the Company had no off-balance sheet arrangements.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

### ITEM 4. CONTROLS AND PROCEDURES

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

In connection with the preparation of this Quarterly Report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Principal Financial and Accounting Officer, of the effectiveness of our disclosure controls and procedures, as of June 30, 2016, in accordance with Rules 13a-15(b) and 15d-15(b) of the Exchange Act.

Based on that evaluation, our Chief Executive Officer and Principal Financial and Accounting Officer have concluded that our disclosure controls and procedures were not effective as of June 30, 2016.

We have identified the following three material weaknesses in our disclosure controls and procedures:

1. We do not have written documentation of our internal control policies and procedures. Written documentation of key internal controls over financial reporting is a requirement of Section 404 of the Sarbanes-Oxley Act. Management evaluated the impact of our failure to have written documentation of our internal controls and procedures on our assessment of our disclosure controls and procedures, and concluded that the control deficiency that resulted represented a material weakness.

2. We do not have sufficient segregation of duties within accounting functions, which is a basic internal control. Due to our size and nature, segregation of all conflicting duties may not always be possible and may not be economically feasible. Management evaluated the impact of our failure to have segregation of duties on our assessment of our disclosure controls and procedures, and concluded that the control deficiency that resulted represented a material weakness.

3. We do not have adequate review and supervision procedures for financial reporting functions. The review and supervision function of internal control relates to the accuracy of financial information reported. The failure to adequately review and supervise could allow the reporting of inaccurate or incomplete financial information. Due to our size and nature, review and supervision may not always be possible or economically feasible.

Based on the foregoing material weaknesses, we have determined that, as of June 30, 2016, our internal controls over our financial reporting are not effective. We are continuing to review and consider what remediation steps need to be taken to address each material weakness but we have not yet introduced a comprehensive remediation program to address these weaknesses. However, we continue to add employees and consultants to address these issues and we will continue to broaden the scope of our accounting and billing capabilities and realign responsibilities in our financial and accounting review functions.

It should be noted that any system of controls, however well designed and operated, can provide only reasonable and not absolute assurance that the objectives of the system are met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of certain events. Because of these and other inherent limitations of control systems, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

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

There has been no change in our internal control over financial reporting during the three month period ended June 30, 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II – OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

In the ordinary course of our business, we become involved in pending and threatened legal actions and proceedings, most of which involve claims of medical malpractice related to medical services that are provided by our affiliated hospitalists. We may also become subject to other lawsuits which could involve significant claims and/or significant defense costs. We have become involved in the following two legal matters:

On May 16, 2014, Lakeside Medical Group, Inc. and Regal Medical Group, Inc., two independent physician associations who compete with the Company in the greater Los Angeles area, filed an action against the Company and

two affiliates of the Company, MMG and AMH, in Los Angeles County Superior Court. The complaint alleged that the Company and its two affiliates made misrepresentations and engaged in other acts in order to improperly solicit physicians and patient-enrollees from Plaintiffs. The Complaint sought compensatory and punitive damages. On June 30, 2014, the Company and its affiliates filed a motion requesting the Court to stay the court proceeding and order the parties to arbitrate this dispute subject to existing arbitration agreements. On August 11, 2014, the Plaintiffs filed a request for dismissal without prejudice of the action. On August 12, 2014, the Plaintiffs served the Company and its affiliates with Demands for Arbitration before Judicial Arbitration Mediation Services (“JAMS”) in Los Angeles. The Company is currently examining the merits of the claims to be arbitrated, and it is too early to state whether the likelihood of an unfavorable outcome is probable or remote, or to estimate the potential loss if the outcome should be negative. The Company is aware that punitive damages previously sought in the court proceeding are not available in arbitration. The Company and its affiliates are preparing a defense to the allegations and the Company intends to vigorously defend the action.

On August 28, 2014, Lakeside Medical Group, Inc. and Regal Medical Group, Inc., filed a similar lawsuit against Warren Hosseinion, the Company's Chief Executive Officer. Dr. Hosseinion is defending the action and is currently being indemnified by the Company subject to the terms of an indemnification agreement and the Company's charter. The Company has an existing Directors and Officers insurance policy. On September 9, 2014, Dr. Hosseinion filed a motion requesting the Court to stay the court proceeding and, pursuant to existing arbitration agreements, order the parties to arbitrate the dispute as part of the pending arbitration proceedings before JAMS (as discussed above). On October 29, 2014, the Plaintiffs filed a request for dismissal without prejudice of the action. On November 13, 2014, Plaintiffs served Dr. Hosseinion with Demands for Arbitration before JAMS in Los Angeles, and on November 19, 2014, the parties agreed to consolidate the two proceedings against Dr. Hosseinion with the two existing proceedings against the Company and its affiliates. The parties are currently pursuing mediation of the dispute. The Company continues to examine the merits of the claims to be arbitrated against Dr. Hosseinion, and it is too early to state whether the likelihood of an unfavorable outcome is probable or remote, or to estimate the potential loss if the outcome should be negative. The Company is aware that punitive damages previously sought in the court proceeding against Dr. Hosseinion are not available in arbitration.

In the ordinary course of the Company's business, the Company becomes involved in pending and threatened legal actions and proceedings, most of which involve claims of medical malpractice related to medical services provided by the Company's affiliated hospitalists. The Company may also become subject to other lawsuits which could involve significant claims and/or significant defense costs. The Company believes, based upon the Company's review of pending actions and proceedings, that the outcome of such legal actions and proceedings will not have a material adverse effect on the Company's business, financial condition, results of operations, or cash flows. The outcome of such actions and proceedings, however, cannot be predicted with certainty and an unfavorable resolution of one or more of them could have a material adverse effect on the Company's business, financial condition, results of operations, or cash flows in a future period.

**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**

32

**ITEM 6. EXHIBITS**

| <b>Exhibit No.</b> | <b>Description</b>                                                                                                                                                           |
|--------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 31.1*              | Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934 |
| 31.2*              | Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934 |
| 32*                | Certification of Periodic Financial Report by the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002              |
| 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                                                                                                                                  |
| 101.LAB*           | XBRL Taxonomy Extension Label Linkbase Document                                                                                                                              |
| 101.PRE*           | XBRL Taxonomy Extension Presentation Linkbase Document                                                                                                                       |

\*Filed herewith.

**SIGNATURE**

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.

**APOLLO MEDICAL HOLDINGS, INC.**

Dated: August 15, 2016 By: /s/ Mihir Shah

Mihir Shah

Chief Financial Officer

(Principal Financial and Accounting Officer)