

Apollo Medical Holdings, Inc.
Form 10-Q
September 14, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED **JULY 31, 2012**

OR

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

COMMISSION FILE NUMBER: **000-25809**

APOLLO MEDICAL HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware **20-8046599**
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification Number)

700 N. Brand Blvd., Suite 450

Glendale, California 91203

(Address of principal executive offices)

(818) 396-8050

Issuer's telephone number:

(Former Name or Former Address, if Changed Since Last Report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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 September 14, 2012, there were 31,051,774 shares of the registrant's common stock, \$0.001 par value per share, issued and outstanding.

APOLLO MEDICAL HOLDINGS, INC.

INDEX TO FORM 10-Q FILING

TABLE OF CONTENTS

	PAGE
PART I	
FINANCIAL INFORMATION	
Item 1. Condensed Consolidated Financial Statements – Unaudited	
Balance Sheets As of July 31, 2012 and January 31, 2012	3
Statements of Operations For the Three and Six months ended July 31, 2012 and 2011	4
Statements of Cash Flows For the Six months ended July 31, 2012 and 2011	5
Notes to Financial Statements	6-17
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	18-21
Item 3. Quantitative and Qualitative Disclosures about Market Risk	21
Item 4. Controls and Procedures.	21
PART II	
OTHER INFORMATION	
Item 1. Legal Proceedings	23
Item 1A Risk Factors	23
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	23
Item 3. Defaults upon Senior Securities	23
Item 4. Mine Safety Disclosures	23
Item 5. Other Information	23
Item 6. Exhibits	23

PART I FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS**

APOLLO MEDICAL HOLDINGS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

	July 31, 2012	January 31, 2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$259,095	\$164,361
Accounts receivable, net	998,255	994,118
Advances	14,693	2,140
Due from affiliate	8,800	5,504
Prepaid expenses	42,369	45,601
Prepaid financing costs, current	28,829	37,500
Total current assets	1,352,041	1,249,224
Other assets	1,450	1,563
Property and equipment - net	44,186	43,261
Intangible assets	38,000	38,000
Goodwill	32,000	32,000
TOTAL ASSETS	\$1,467,677	\$1,364,048
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$122,789	\$163,476
Senior secured promissory note	270,000	-
10% Convertible notes payable, net	923,282	596,366
Derivative liability	3,109,152	653,026
Stock issuable	27,234	90,000
Due to officers	18,742	12,400
Total current liabilities	4,471,199	1,515,268
8% Convertible notes, net	150,000	150,000
Warrant liability	454,585	120,000
Total liabilities	5,075,784	1,785,268

STOCKHOLDERS' DEFICIT

Preferred stock, par value \$0.001 ; 5,000,000 shares authorized; none issued	-	-
Common Stock, par value \$0.001; 100,000,000 shares authorized, 31,051,774 and 29,335,774 shares issued and outstanding as of July 31, 2012 and January 31, 2012, respectively	31,052	29,336
Prepaid consulting	(40,920)	
Additional paid-in-capital	1,741,549	1,429,051
Accumulated deficit	(5,477,889)	(2,117,708)
Total	(3,746,208)	(659,321)
Non-controlling interest	138,101	238,101
Total stockholders' deficit	(3,608,107)	(421,220)
 TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	 \$1,467,677	 \$1,364,048

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

APOLLO MEDICAL HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	Three months ended July 31,		Six months ended July 31,	
	2012	2011	2012	2011
REVENUES	\$ 1,649,451	\$ 1,093,708	\$ 3,281,295	\$ 2,133,400
COST OF SERVICES	1,205,673	939,336	2,534,332	1,886,825
GROSS PROFIT	443,778	154,371	746,963	246,575
Operating expenses:				
General and administrative	501,858	235,130	853,405	511,485
Depreciation	4,946	2,580	9,737	5,873
Total operating expenses	506,804	237,710	863,142	517,358
LOSS FROM OPERATIONS	(63,026)	(83,339)	(116,179)	(270,783)
Other income (expense)				
Loss on change in fair value of derivative liabilities	(2,914,549)	-	(2,790,711)	-
Interest expense	(205,221)	(31,603)	(408,047)	(63,177)
Financing cost	(19,685)	(9,375)	(40,895)	(18,750)
Other income	455	1,484	450	2,546
Total other expenses	(3,139,000)	(39,494)	(3,239,203)	(79,381)
LOSS BEFORE INCOME TAXES	(3,202,026)	(122,833)	(3,355,382)	(350,164)
Provision for Income Tax	800	-	4,800	1,600
NET LOSS	\$(3,202,826)	\$(122,833)	\$(3,360,182)	\$(351,764)
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING, BASIC AND DILUTED	31,015,904	28,985,774	30,780,543	28,819,752
BASIC AND DILUTED NET LOSS PER SHARE	\$(0.10)	\$(0.00)	\$(0.11)	\$(0.01)

Weighted average number of shares used to compute basic and diluted loss per share is the same since the effect of the dilutive securities is anti-dilutive.

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

APOLLO MEDICAL HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Six months ended July 31,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$(3,360,182)	\$(351,764)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation expense	9,737	5,873
Issuance of shares for services	102,556	63,000
Non-cash stock option expense	82,508	14,666
Amortization of financing costs	40,895	18,750
Amortization of debt discount	326,916	402
Loss on change in fair value of warrant and derivative liabilities	2,790,711	-
Changes in assets and liabilities:		
Accounts receivable	(4,137)	(3,649)
Due to officers	6,342	7
Due from affiliates	(3,296)	(800)
Prepaid commission and financing cost	(5,000)	-
Prepaid expenses and advances	(9,516)	14,960
Other assets	(1,450)	-
Accounts payable and accrued liabilities	(40,688)	184,604
Net cash used in operating activities	(64,605)	(53,951)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property and equipment acquired	(10,662)	-
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from note payable	270,000	-
Distribution to non-controlling interest shareholder	(100,000)	-
Net cash provided by financing activities	170,000	-
NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	94,734	(53,951)
CASH & CASH EQUIVALENTS, BEGINNING BALANCE	164,361	397,101
CASH & CASH EQUIVALENTS, ENDING BALANCE	\$259,095	\$343,150
SUPPLEMENTARY DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid	\$15,000	\$62,500

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Income Taxes paid	\$9,040	\$1,600
Non-Cash Financing Activities		
Shares issued in connection with acquisitions	\$-	\$210,000
Contingent consideration payable	\$-	\$367,500
Shares issued in connection with promissory note financing costs	\$25,661	\$-
Shares issued for prepaid director services	\$47,520	\$-

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. (“Apollo” or the “Company”) is a leading provider of hospitalist services in Los Angeles, California area. Hospitalist medicine is organized around the admission and care of patients in an inpatient facility such as a hospital or skilled nursing facility and is focused on providing, managing and coordinating the care of hospitalized patients. Apollo operates as a medical management holding company that focuses on managing the provision of hospital-based medicine through the following wholly-owned subsidiary management companies, Apollo Medical Management, Inc. (“AMM”), Pulmonary Critical Care Management, Inc. (“PCCM”), and ApolloMed ACO, Inc. (“ApolloMedACO”). Through AMM and PCCM, the Company manages affiliated medical groups, which primarily consists of ApolloMed Hospitalists (“AMH”) and Los Angeles Lung Center (“LALC”). AMM and PCCM operate as a Physician Practice Management Company (PPM) and is in the business of providing management services to Physician Practice Companies (PPC) under long-term management service agreements.

On July 10, 2012, ApolloMedACO was notified that it had been selected by the Centers for Medicare and Medicaid Services (“CMS”) to participate in the Medicare Shared Savings Program (“MSSP”). The Medicare Shared Savings Program model is designed to encourage the development of Accountable Care Organizations (“ACOs”), which can be comprised of hospitals, doctors and other health care providers who work together and are accountable for quality outcomes and the overall patient experience, while reducing the growth in Medicare expenditures. Through the MSSP model, ApolloMedACO will work with CMS on a program for Medicare beneficiaries to enhance the engagement between patients and their medical providers through the coordination of care and services across all aspects of their healthcare needs. The goal of the program is to improve the quality of the patient’s care and outcomes through more efficient and coordinated approach among providers.

2. Summary of Significant Accounting Policies

Accounting Principles

These statements reflect all adjustments, consisting of normal recurring adjustments, which, in management’s opinion, are necessary. These financial statements should be read in conjunction with the Company’s financial statements and notes thereto included in the Company’s audited financial statements on Form 10-K for the fiscal year ended January

31, 2012 as filed with the Securities and Exchange Commission ("SEC") on May 15, 2012.

Principles of Consolidation

Our consolidated financial statements include the accounts of Apollo Medical Holdings, Inc. and its wholly owned subsidiaries AMM, Aligned Healthcare Group ("AHI"), ApolloMedACO, and PCCM as well as PPCs managed under long-term management service agreements including AMH and LALC. Some states have laws that prohibit business entities, such as Apollo, 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, we operate 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 hospitalist services. Under the management agreements, we provide and perform all non-medical management and administrative services, including financial management, information systems, marketing, risk management and administrative support. The management agreements typically have an initial term of 20 years unless terminated by either party for cause. The management agreements are not terminable by the PMCs, except in the case of gross negligence, fraud, or other illegal acts by Apollo, or bankruptcy of Apollo.

Through the management agreements and our relationship with the stockholders of the PPCs, we have exclusive authority over all non-medical decision making related to the ongoing business operations of the PPCs. Consequently, we consolidate the revenue and expenses of the PPCs from the date of execution of the management agreements.

All intercompany balances and transactions have been eliminated in consolidation.

Non-controlling Interest

The non-controlling interest recorded in our consolidated financial statements represents the pre-acquisition equity of those entities which we have determined that we have a controlling financial interest and that consolidation is required as a result of management contracts entered into with these entities. The nature of these contracts provide us with a monthly management fee to provide the services described above, and as such, the only adjustments to non-controlling interests in any period subsequent to initial consolidation would relate to either capital contributions or withdrawals by the non-controlling parties.

Fair Value of Financial Instruments

Our 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 Company currently records warrants using level two in the hierarchy.

The carrying values of cash and cash equivalents, trade and other receivables, trade and other payables approximate their fair values due to the short maturities of these instruments.

Fair Value of Warrants

The Company accounts for free-standing warrants for shares of common stock by first determining whether the instruments require liability treatment based in the warrant agreements. Generally, when the agreements require future performance obligations on the part of the Company (other than the issuance of common shares in connection with notice of exercise), or the exercise price of warrants is not fixed or determinable, then the warrants are treated as liabilities and recorded at their relative fair value as of each reporting period. If the warrants are determined to be equity-classified instruments, then the warrants are recorded as an increase in additional paid-in capital with a corresponding discount.

The Company accounts for warrants included with convertible notes by first allocating the proceeds of issuance among the convertible instrument and the stock warrants based on their relative fair values. Following this, it is then further determined whether the embedded conversion option has an intrinsic value. The fair value of the warrants is recorded as an increase to additional paid-in capital with a corresponding discount on the related notes.

Subsequent adjustments to the exercise price of the warrants are recorded at the date of the change. Warrants that are classified as liabilities are re-measured at each reporting period and changes in the fair value are reported in the Company's consolidated statement of operations.

Concentrations

The Company had three major customers during the three month period ended July 31, 2012 which contributed 25.8%, 11.0% and 10.7% of revenue, respectively, and during the three month period ended July 31, 2011 which contributed 40.9%, 14.1% and 8.4%, of revenue, respectively.

The Company had three major customers during the six month period ended July 31, 2012 which contributed 26.0%, 10.7% and 9.7% of revenue, respectively, and during the six month period ended July 31, 2011 which contributed 41.4 %, 21.7 % and 9.1 %, of revenue, respectively.

Receivables from these customers amounted to 14.4 %, 8.9%, and 10.1% of total accounts receivable at July 31, 2012, respectively, and 14.1%, 9.0% and 4.2% of total accounts receivable as of January 31, 2012, respectively.

Basic and Diluted Earnings Per Share

Basic net 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 loss by the weighted average number of shares of the Company's common stock issued and outstanding during such period. Diluted net 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.

Cash and Cash Equivalents and Concentration of Cash

The Company considers all short-term investments with an original maturity of three months or less to be cash equivalents.

Cash and cash equivalents at July 31, 2012, include cash in bank representing the Company's current operating accounts and \$22,768 in a brokerage money market account.

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, and 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. Management 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. Reserves are recorded primarily on a specific identification basis.

Prepaid Expenses

Prepaid Expenses represent amounts paid in advance for medical malpractice insurance, software licenses and Directors' and Officers' insurance.

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.

Income Taxes

The Company accounts for income taxes using an asset and liability approach which allows for the recognition and measurement of deferred tax assets based upon the likelihood of realization of tax benefits in future years. Under the asset and liability approach, deferred taxes are provided for the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. A valuation allowance is provided for deferred tax assets if it is more likely than not these items will either expire before the Company is able to realize their benefits, or that future deductibility is uncertain.

The evaluation of a tax position is a two-step process. The first step is to determine whether it is more-likely-than-not that a tax position will be sustained upon examination, including the resolution of any related appeals or litigation based on the technical merits of that position. The second step is to measure a tax position that meets the more-likely-than-not threshold to determine the amount of benefit to be recognized in the financial statements. A tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold are recognized in the first subsequent period in which the threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not criteria are de-recognized in the first subsequent financial reporting period in which the threshold is no longer met. Penalties and interest incurred related to underpayment of income tax are classified as income tax expense in the year incurred.

Revenue Recognition

Revenue consists of contracted and fee-for-service revenue. Revenue is recorded in the period in which services are rendered. Our 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 our billing arrangements and how net revenue is recognized for each.

Contracted revenue represents revenue generated under contracts in which we provide 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 our staff and contractors. Additionally, contract revenue also includes supplemental revenue from hospitals where we may have a fee-for-service contract arrangement or provide physician advisory services to the medical staff at 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, we derive a portion of our revenue as a contractual bonus from collections received by our 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 represents revenue earned under contracts in which we bill and collect the professional component of charges for medical services rendered by our contracted and employed physicians. Under the fee-for-service arrangements, we bill for services provided and receive payment from patients or their third-party payers. 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 payer 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 our billing center for medical coding and entering into our billing system and the verification of each patient's submission or representation at the time services are rendered as to the payer(s) responsible for payment of such services. Revenue is recorded based on the information known at the time of entering of such information into our billing systems as well as an estimate of the revenue associated with medical services.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period.

Reclassification

Certain amounts in the 2011 condensed consolidated financial statements have been reclassified to conform them to the 2012 presentation.

Recently Adopted Accounting Pronouncements

In December 2010, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") No. 2010-29, *Business Combinations, Disclosure of Supplementary Pro Forma Information for Business Combinations* ("ASU 2010-29"), which provides clarification regarding pro forma revenue and earnings disclosure requirements for business combinations. The amendments in this ASU specify that if a public entity presents comparative financial statements, the entity should disclose only revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period. The amendments also expand the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to

the business combination included in the reported pro forma revenue and earnings. The amendments are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Early adoption is permitted. The Company adopted ASU 2010-29 during the first interim reporting period of 2011 as it relates to pro-forma disclosure of the Company's acquisitions. The adoption of ASU 2010-29 did not have a material impact on the Company's consolidated financial statements.

ASU No. 2010-28, *Intangibles — Goodwill and Other, When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts* ("ASU 2010-28") was issued in December 2010. The amendments in this ASU modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that goodwill impairment exists, an entity should consider whether there are any events or circumstances that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The Company adopted ASU 2010-28 for the quarter ending March 31, 2011.

In December 2011, the FASB issued guidance on offsetting (netting) assets and liabilities. Entities are required to disclose both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. The new guidance is effective for annual periods beginning after January 1, 2013. We do not expect the adoption of this revised GAAP to have a material effect on our financial position.

In May 2011, the FASB issued a GAAP update on fair value measurement, which eliminates differences between U.S. GAAP and International Financial Reporting Standards (IFRS), resulting in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between GAAP and IFRS. It also expands the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. This revised GAAP will be effective for annual and interim periods beginning after December 15, 2011. We do not expect the adoption of this revised GAAP to have a material effect on our financial position, results of operations or cash flows.

In July 2012, the FASB issued Accounting Standards Update 2012-02, *Intangibles—Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment*. In accordance with the amendments in this Update, an entity has the option first to assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test by comparing the fair value with the carrying amount in accordance with Subtopic 350-30. The amendments are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted, including for annual and interim impairment tests performed as of a date before July 27, 2012, if a public entity's financial statements for the most recent annual or interim period have not yet been issued or, for nonpublic entities, have not yet been made available for issuance. We do not expect the adoption of this revised GAAP to have a material effect on our financial position, results of operations or cash flows.

3. Going Concern

The Company's condensed consolidated financial statements are prepared using the generally accepted accounting principles applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. The Company has generated a net loss from operations of \$63,026 and \$116,179 for the three and six months ended July 31, 2012 respectively, compared to a net loss from operations of \$83,339 and \$270,783 for the three and six months ended July 31, 2011, respectively. As of July 31, 2012 the Company has an accumulated deficit of \$5,477,889 and a total stockholders' deficit of \$3,608,107.

The financial statements do not include any adjustments relating to the recoverability and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

To date the Company has funded its operations from internally generated cash flow and external sources, the proceeds from the Senior Secured Note and the convertible notes which have provided funds for near-term operations and growth. The current operating plan indicates that losses from operations may be incurred for all of fiscal 2013, the maturing of \$270,000 of Senior Secured Notes on September 15, 2012 and October 15, 2012, and the maturing of \$1,250,000 in 10% Senior Subordinated Convertible Notes on January 31, 2013. Consequently, we may not have sufficient liquidity necessary to sustain operations for the next twelve months and this raises substantial doubt that we will be able to continue as a going concern. The Company intends to seek to raise additional capital through public or private equity financings, partnerships, joint ventures, disposition of assets, debt financings, bank borrowings or other sources of financing.

No assurances can be made that management will be successful in achieving its plan. If the Company is not able to raise substantial additional capital in a timely manner, the Company may be forced to cease operations.

4. Accounts Receivable

Accounts receivable primarily consists of amounts due from third-party payors, including government sponsored Medicare and Medicaid programs, and 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. Management 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. Reserves are recorded primarily on a specific identification basis. Accounts receivable in the accompanying condensed consolidated balance sheets includes an allowance for doubtful accounts of \$28,130 and \$42,576 at July 31, 2012 and January 31, 2012, respectively.

5. Prepaid Financing Cost

Prepaid financing cost represents financing cost associated with 10% Senior Subordinated Callable Convertible Notes (see Note 9) and the Senior Secured Promissory Note (see Note 8), and are amortized over the lives of the respective notes.

6. Property and Equipment

Property and equipment consisted of the following:

	July 31, 2012	January 31, 2012
Website	\$4,568	\$4,568
Computers	16,841	13,912
Software	160,385	155,039
Machinery and equipment	73,940	71,553
Furniture and fixtures	5,302	5,302
Leasehold improvements	8,198	8,198
Gross Property and Equipment	269,234	258,572
Less accumulated depreciation	(225,048)	(215,311)
Net Property and Equipment	\$44,186	\$43,261

7. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consisted of the following:

	July 31, 2012	January 31, 2012
Accounts payable	\$43,887	\$109,704
D&O insurance payable	-	11,444
Income taxes payable	2,199	4,219

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Accrued interest	1,000	1,000
Accrued professional fees	63,176	27,500
Accrued payroll taxes	12,526	9,609
Total	\$122,789	\$ 163,476

8. Senior Secured Note

The Company entered into a Senior Secured Note (“Note”) agreement on February 1, 2012 with SpaGus Capital Partners, LLC, an entity in which Gary Augusta, a director and shareholder of the Company, holds an ownership interest. The terms of the Note provide for interest at 8.929% per annum, payments of principal of \$135,000 on each of September 15, 2012 and October 15, 2012, and to be secured by substantially all assets of the Company. The Company prepaid interest on the Note principal of \$15,000 in accordance with the Note, and paid financing costs of \$5,000 in cash and the issuance of 216,000 shares of common stock, which was valued at \$25,661 at the date of issuance. Prepaid interest and financing costs will be amortized to interest expense over the life of the note using the effective interest method. Related interest expense was \$5,000 and \$12,500 for the three and six months ended July 31, 2012, respectively.

9. Convertible Notes

The Company’s convertible notes consisted of the following:

	July 31, 2012	January 31, 2012
10% Senior Subordinated Convertible Notes due January 31, 2013, net of debt discount of \$326,718 (July 31, 2012) and \$653,026 (January 31, 2012)	\$ 932,282	\$ 596,366
8% Senior Subordinated Convertible Notes due February 1, 2015	150,000	150,000
Total Convertible Notes	1,073,282	746,366
Less: Current Portion	932,282	596,366
Long Term Portion	\$ 150,000	\$ 150,000

10% Senior Subordinated Callable Convertible Notes due January 31, 2013

On October 16, 2009, the Company issued \$1,250,000 of its 10% Senior Subordinated Callable Convertible Notes. The net proceeds of \$1,100,000 were used for the repayment of existing debt, acquisitions, physician recruitment and other general corporate purposes. The notes bear interest at a rate of 10% annually, payable semi- annually on January 31 and July 31. The Notes mature and become due and payable on January 31, 2013 and rank senior to all other unsecured debt of the Company.

The 10% Notes were sold through an Agent in the form of a Unit. Each Unit was comprised of one 10% Senior Subordinated Callable Note with a par value \$25,000, and one five-year warrant to purchase 25,000 shares of the Company's common stock. The purchase price of each Unit was \$25,000, resulting in gross proceeds of \$1,250,000.

In connection with the placement of the subordinated notes, the Company paid a commission of \$125,000 and \$25,000 of other direct expenses. The agent also received five-year warrants to purchase up to 250,000 shares of the Common Stock at an initial exercise price of \$0.25 per share adjustable pursuant to changes in public value of our shares and cash flow of the Company from July 31, 2011 until the note is paid in full. The agent also received 100,000 shares of restricted common stock for pre-transaction advisory services and due diligence. A commission of \$125,000 paid at closing, is accounted for as prepaid expense and will be amortized over a forty-month period through January 31, 2013, the maturity date of the notes. The \$25,000 of other direct expenses were paid at closing and accounted for as financing costs in the accompanying consolidated financial statements. In addition, financing costs included \$4,000 related to the value of the 100,000 shares granted to the placement agent.

The 10% Notes are convertible any time prior to January 31, 2013. The initial conversion rate is 200,000 shares of the Company's common stock per \$25,000 principal amount of the 10% Notes adjustable pursuant to changes in public value of our shares and cash flow of the Company. This represents an initial conversion price of \$0.125 per share of the Company's common stock. The note is fixed from August 1, 2009 through July 31, 2011. After July 31, 2011, the conversion price will be equal to the lesser of \$0.125 per share or the average of the monthly high stock price and low stock price as reported by Bloomberg multiplied by 110%. The minimum conversion price is the greater of \$0.05 per share or 8 times cash EPS. On or after January 31, 2012, the Company may, at its option, upon 60 days' notice to both the Noteholder's and the placement agent, redeem all or a portion of the notes at a redemption price in cash equal to 102% of the principal amount of the notes to be redeemed plus accrued and unpaid interest to, but excluding, the redemption date.

The Company recorded a derivative liability and an off-setting debt discount in the amount of \$653,026 as of January 31, 2012, as the result of the change in the conversion price in connection with the conversion price reset to \$0.11485. The Company's calculation of the derivative liability was made using the Black-Scholes option-pricing model with the following assumptions: expected life of 1 year; 80.0% stock price volatility; risk-free interest rate of 0.30% and no dividends during the expected term.

The Warrants attached to the Units are exercisable into shares of Common Stock at an initial exercise price of \$0.125. The Warrants have a five-year term and expire on October 31, 2014. The Company's calculations were made using the Black-Scholes option-pricing model with the following assumptions: expected life of 5 years; 80.0% stock price volatility; risk-free interest rate of 2.16% and no dividends during the expected term. These warrants were estimated to have a fair value of \$2,653 using the Black-Scholes pricing model which was recorded as unamortized warrant discount on the grant date and \$2,418 as of January 31, 2010.

In connection with this offering, the Company also issued warrants to purchase 250,000 shares of our common stock to the placement agent at an exercise price of \$0.25 per share, and are exercisable immediately upon issuance and expire five years after the date of issuance. The Company's calculations were made using the Black-Scholes option-pricing model with the following assumptions: expected life of 5 years; 48.0% stock price volatility; risk-free interest rate of 2.16% and no dividends during the expected term. These warrants were estimated to have a fair value of \$2,200, which was recorded as unamortized warrant discount on the grant date. The exercise price of the warrants is adjustable according to the same terms as the 10% Notes.

At January 31, 2012, the warrant exercise price reset to \$0.11485. In connection with this the Company recorded a warrant liability of \$120,000 and recognized additional financing costs of \$120,000 for the year ended January 31, 2012. The fair value of the warrant liability was determined using the Black-Scholes model option pricing model with the following assumptions: expected life of 2.75 years; 30% stock price volatility; risk-free interest rate of 0.30% and no dividends during the expected term.

8% Senior Subordinated Convertible Promissory Notes due February 1, 2015

On September 1, 2011, the Company issued \$150,000 of its 8% Senior Subordinated Promissory Convertible Notes. The net proceeds were used for working capital to support organic growth including the expansion to new hospitals and hiring of new physicians, acquisitions of physician practices and/or care management businesses and for general corporate purposes. The notes bear interest at a rate of 8% annually, payable semi-annually on December 31 and June 30. The Notes mature and become due and payable on February 1, 2015 and rank senior to all other subordinated debt of the Company.

The 8% Notes are convertible any time prior to February 1, 2015. The initial conversion rate is 100,000 shares of the Company's common stock per \$25,000 principal amount of the 8% Notes, which represents an initial conversion price of \$0.25 per share of the Company's common stock. The conversion price of the 8% Notes will be adjusted on a weighted average basis if the Company issues certain additional shares of common stock (or warrants or rights to purchase share of common stock or securities convertible into common stock) for a consideration per share which is less than the then applicable conversion price.

The Company may require the holders of the 8% Notes to convert to common stock at the then applicable conversion rate at any time after June 30, 2013 if: i) our 10% Notes have been fully repaid or converted and ii) the closing price of our common stock has exceeded 150% of the then applicable Conversion Price for no less than 30 consecutive trading days prior to giving notice.

At any time on or after June 30, 2014, the Company may, at its sole option redeem all of the Notes at a redemption price in cash equal to 108% of the principal amount of the Notes to be redeemed plus any accrued and unpaid interest to, but excluding the redemption rate.

Interest expense on the Convertible Notes was \$34,250 and \$31,603 for the three month periods ended July 31, 2012 and 2011, respectively, and \$68,500 and \$63,177 for the six months ended July 31, 2012 and 2011, respectively. Amortization expense of the debt discount on the 10% Convertible Notes is included in interest expense and was \$163,458 and \$0 for the three months ended July 31, 2012 and 2011, respectively, and was \$326,916 and \$0 for the six months ended July 31, 2012 and 2011, respectively.

10. Fair Value of Financial Instruments

The fair values of the Company's financial instruments are measured on a recurring basis. 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 Senior Secured Note and the Convertible Notes approximates fair value. The fair value of the warrant and derivative liability was estimated using the Black-Scholes

option valuation model. The Company did not have any assets or liabilities categorized as Level 1 or 2 as of July 31, 2012.

The carrying amounts and fair values of the Company's financial instruments are presented below as of July 31, 2012:

	Carrying Amount	Fair Value (a)
Level 3 Liabilities		
Derivative liability	\$	(a) \$ 3,109,152
Warrant liability		(a) 454,585
	\$	\$ 3,563,737

(a) No cost is associated with these liabilities (see Note 9)

The following summarizes the activity of Level 3 inputs measured on a recurring basis for the three months ended July 31, 2012:

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

	Derivative	Warrant	Total
Balance at January 31, 2012	\$653,026	\$120,000	\$773,026
Additions	-	-	-
Exercises	-	-	-
Adjustment resulting from change in fair value recognized in earnings (1)	2,456,126	334,585	2,790,711
Balance at July 31, 2012	\$3,109,152	\$454,585	\$3,563,737

(1) The amount of total gains or losses for the period attributable to the change in unrealized gains or losses relating to liabilities held at the reporting date. The unrealized gain is recorded in unrealized gain on change in fair value of warrant and derivative liabilities in the accompanying condensed and consolidated statement of operations.

11. Related Party Transactions

Due to officers of \$18,472 and \$12,400 at July 31, 2012 and January 31, 2012, respectively, represent amounts due in connection with acquisition of PCCM and reimbursement of certain expenses paid on behalf of the Company. This balance is non- interest bearing and due on demand.

Due from affiliates represents advances made by the Company to Apollo Medical Associates (“AMA”). These balances are due on demand, non-interest bearing and are unsecured. AMA is an unconsolidated affiliate of the Company and currently has no operations and is inactive. No management agreement currently exists between AMM and AMA.

12. Non-Controlling Interest

Activity within non-controlling interest for the six months ended July 31, 2012 consisted of the following:

Balance as of January 31, 2012	\$238,101
Distributions to non-controlling interest shareholder	(100,000)
Balance as of July 31, 2012	\$138,101

13. Income Taxes

The Company uses the liability method of accounting for income taxes as set forth in ASC 740 (formerly Statement of Financial Accounting Standards No. 109, “Accounting for Income Taxes” (“SFAS 109”). 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. The Company’s effective tax rate is different from the federal statutory rate of 34% due primarily to operating losses that receive no tax benefit as a result of a valuation allowance recorded for such losses.

14. Stockholders' Deficit

Share Issuances

The Company's Board of Directors authorized the issuance 600,000 shares of common stock for compensation related to consulting and directors' fees during the twelve months ended January 31, 2012. The shares were valued at \$90,000 based on the fair values of the shares at the issuance dates. These shares were not issued as January 31, 2012 and were recorded as a liability at January 31, 2012. Included in the issuance of 600,000 shares were 400,000 restricted shares of common stock acquired by Mr. Suresh Nihalani for \$0.001 per share in connection with Mr. Nihalani's re-election to the Company's Board of Directors. The fair value of the grant to Mr. Nihalani was \$60,000 and was recorded as compensation expense during the year ended January 31, 2012.

During the three months ended April 30, 2012, the Company's Board of Directors authorized: (i) the purchase of 400,000 restricted shares of the Company's common stock by Mr. Gary Augusta at \$0.001 per share by Mr. Augusta in connection with Mr. Augusta's election to the Company's Board. The fair value of the shares at grant date was \$47,520 and will be accounted for as prepaid consulting and amortized to expense over the related service period, with the unamortized portion presented as a contra equity account on the balance sheet as of July 31, 2012; (ii) the issuance of 216,000 common shares to SpaGus Capital, LLC with a fair value of \$25,661 related to the cost of placing the Senior Secured Note (see Note 8); and (iii) the issuance of 300,000 common shares with a fair value of \$41,560 related to consulting services provided by Mr. Augusta during the three months ended April 30, 2012. The Company has the right, but not the obligation, to redeem the unearned service portion of the 400,000 restricted shares purchased by Mr. Nihalani and 400,000 restricted shares purchased by Mr. Augusta at par value.

The Company's Board of Directors authorized the issuance of 200,000 shares to Mr. Augusta with a fair value of \$26,000 during the three months ended July 31, 2012 related to consulting services provided by Mr. Augusta.

Warrants

Warrants consisted of the following:

	Aggregate intrinsic value	Number of warrants
Outstanding at January 31, 2012	\$ -	1,500,000
Granted	-	-
Exercised	-	-

Cancelled	-	-
Outstanding at July 31, 2012	\$ -	1,500,000

Exercise Price	Warrants outstanding	Weighted average remaining contractual life	Warrants exercisable	Weighted average exercise price
\$ 0.114850	1,250,000	2.25	1,250,000	\$ 0.114850
\$ 0.114850	250,000	2.25	250,000	\$ 0.114850

In conjunction with the completion of the private placement on October 16, 2009 (see Note 9), the Company issued a total of 1,500,000 warrants. Of this amount, 1,250,000 warrants were issued to the holders of the Convertible Notes and 250,000 warrants were granted to the placement agent. The warrants are exercisable into shares of Common Stock at an exercise price of \$0.11485. The warrants have a five-year term and expire on October 31, 2014.

2010 Equity Incentive Plan

On March 4, 2010, the Company's Board of Directors approved the 2010 Equity Incentive Plan (the "Plan"). The Plan provides for the granting of the following types of awards to persons who are employees, officers, consultants, advisors, or directors of our Company or any of its affiliates:

Under the Plan, the Company may issue a variety of equity vehicles to provide flexibility in implementing equity awards, including incentive stock options, nonqualified stock options, restricted stock grants and stock appreciation rights.

Subject to the adjustment provisions of the Plan that are applicable in the event of a stock dividend, stock split, reverse stock split or similar transaction, up to 5,000,000 shares of common stock may be issued under the Plan. Options granted under the Plan generally vest over a three-year period and generally expire ten years from the date of grant. As of July 31, 2012, 2,050,000 shares are available for future grants under the Plan. The Company issues new shares to satisfy stock option and warrant exercises.

Stock options and warrants issued to non-employees as compensation for services to be provided to the Company are accounted for based upon the fair value of the services provided or the estimated fair value of the option or warrant, whichever can be more clearly determined. The Company recognizes this expense over the period in which the services are provided.

During the year ended January 31, 2011, the Company's Board of Directors granted 1,150,000 options to employees and directors. The fair value of the options was \$0.11 per share, or \$126,500 aggregate fair value. The fair value of each option award was estimated using the Black-Scholes option pricing model. The calculation was based on the exercise price of \$0.15, an expected term of 10.0 years using the simplified method, interest rate of 1.98%, volatility of 80% and no dividends.

Related compensation expense was \$6,254 and \$7,333 and for the three months ended July 31, 2012 and 2011, and related compensation expense was \$12,508 and \$14,666 for the six months ended July 31, 2012 and 2011, respectively. Unrecorded compensation cost related to non-vested the 2011 option awards was \$12,507 at July 31, 2012 and \$25,015 at January 31, 2012, respectively.

On February 1, 2012 the Board of Directors approved the grant of 1,000,000 stock options to Mr. Ted Schreck in pursuant to Mr. Schreck's agreement to join the Company's Board as director. The options vest in three equal installments on each of February 1, 2012, 2013, and 2014. The options expire on the tenth anniversary of issuance. The fair value of the stock options of \$120,000 was determined under the Black-Scholes option pricing model. The calculation was based on the exercise price of \$0.15, an expected term of 10.0 years using the simplified method, interest rate of 1.97%, volatility of 80.0% and no dividends.

Total stock option compensation recognized for Mr. Schreck's stock options was \$15,000 and \$70,000 for the three and six months ended July 31, 2012, respectively. Unrecorded compensation cost related to non-vested option awards to Mr. Schreck was \$50,000 as of July 31, 2012, which will be recognized through fiscal year ending January 31, 2014, subject to Mr. Schreck's continued role as director.

Stock option transactions under the Company's stock option plans the six months ended July 31, 2012 are summarized below:

	Shares	Weighted Average Per Share Exercise Price	Weighted Average Remaining Life (Years)	Aggregate Intrinsic Value
Balance, January 31, 2012	1,150,000	\$ 0.15	8.9	\$ -
Granted	1,000,000	0.15	9.5	-
Exercised	-	-	-	-
Expired	-	-	-	-
Forfeited	-	-	-	-
Balance, July 31, 2012	2,150,000	\$ 0.15	8.9	\$ -

Vested and expected to vest	1,483,333	\$ 0.15	8.9	\$	-
Exercisable, July 31, 2012	1,350,000	\$ 0.15	8.9	\$	-

As of July 31, 2012 and January 31, 2012, there was approximately \$62,507 and \$25,015, respectively, of total unrecognized compensation cost related to non-vested share-based employee and director compensation arrangements. The remaining unrecognized expense at July 31, 2012 is expected to be recognized through the fiscal year ending January 31, 2015.

15. Commitments

On March 15, 2009, the Company entered into a Consulting Agreement with Kaneohe (“Kanehoe”) Advisors LLC (Mr. Kyle Francis) under which Mr. Francis became the Company’s Executive Vice President, Business Development and Strategy. Under the terms of the Agreement, Mr. Francis is compensated at a rate of \$8,000 per month. In addition, Mr. Francis received 350,000 shares of restricted stock at the date of the Agreement and is entitled to 350,000 additional restricted shares on the first and second anniversaries of the Agreement, provided the Agreement is not terminated. The initial 350,000 shares, along with 50,000 shares granted to Mr. Francis in the year ended January 2009, were issued in the third quarter ended October 31, 2009. On March 15, 2010, the second anniversary of the Consulting Agreement, Mr. Francis was granted an additional 350,000 shares. On March 15, 2011, Mr. Francis was granted an additional 350,000 shares on the third anniversary of the before mentioned Consulting Agreement.

16. Acquisitions

Aligned Healthcare Group

On February 15, 2011, the Company entered into a Stock Purchase Agreement (the “Purchase Agreement”) with Aligned Healthcare Group – California, Inc., Raouf Khalil, Jamie McReynolds, M.D. BJ Reese and BJ Reese & Associates, LLC, under which the Company acquired all of the issued and outstanding shares of capital stock and associated Intellectual property and related intangibles (the “Acquisition”) of AHI.

Upon the signing of the Purchase Agreement, 1,000,000 shares of the Company's common stock became issuable (the "Initial Shares") and are included in the number of shares outstanding. In addition, if the gross revenues of AHI and an affiliated entity (the "Aligned Division") had exceeded \$1,000,000 on or before February 1, 2012, then the Company would have been obligated to issue an additional 1,000,000 shares of common stock (the "Contingent Shares"). Moreover, the Company would be obligated to issue up to an additional 3,500,000 shares of common stock (the "Earn-Out Shares" and, collectively with the Initial Shares and the Contingent Shares, the "Shares") over a three year period following closing based on the EBITDA generated by the Aligned Division during that time. Under the agreement, ApolloMed would issue twelve shares of its Common stock for each dollar of Actual EBITDA earned in the first 12-month period. In subsequent periods, ApolloMed would be required to issue twelve shares of its common stock for each dollar of Actual EBITDA in excess of the maximum EBITDA earned in either the first 12-month period or first 12-month period and second 12 month period.

Additionally, in accordance with the Purchase Agreement, if prior to February 15, 2012, AHI had not entered into an agreement for the provision of certain services to a hospital or certain other health organizations that has a term of at least one year and provides aggregate net revenues to AHI of at least \$1,000,000, the Company would have the right to repurchase all of the Initial Shares for \$0.05 per share, at which time the Company's obligation to issue any further Shares would terminate.

Based on our initial internal estimate of contingent shares to be issued as part of this agreement, we had estimated that the total fair value of the common stock shares issued and contingently issuable for this transaction on the acquisition date was \$367,500 (1,750,000 shares).

The Company originally recognized a liability based on the acquisition date fair value of the acquisition-related contingent consideration based on the probability of the achievement of the targets stipulated in the Purchase Agreement. Based on the Company's estimation, an initial liability of \$367,500 was recorded. At January 31, 2012 the Company determined that it did not have an obligation to issue additional shares under the terms of the Purchase Agreement, and reversed its \$367,500 accrual.

As of January, 31, 2012, based upon the completion of the Company's annual goodwill impairment test, it was determined that the goodwill associated with the AHI acquisition has been impaired, and as the result, the Company recorded an impairment loss of \$210,000 due to the result of contracts that were anticipated to result from this acquisition that did not materialize, and Company management decided to focus its energies on new initiatives.

Pulmonary Critical Care Management, Inc.

On August 2, 2011, Apollo Medical Holdings, Inc. entered into a stock purchase agreement (the “PCCM Purchase Agreement”) with the sole shareholder of Pulmonary Critical Care Management, Inc. (“PCCM”), a provider of management services to the Los Angeles Lung Center (“LALC”), under which the Company acquired (the “PCCM Acquisition”) all of the issued and outstanding shares of capital stock of PCCM and the associated intangible asset in the management services agreement that PCCM has with LALC (the “PCCM Services Agreement”). Upon the signing of the PCCM Purchase Agreement, the Company issued 350,000 common shares to the sole shareholder of PCCM, which was valued as of the date of issuance at \$70,000, based on the fair market value of our shares.

At the time of the acquisition, the assets of PCCM consisted only of the PCCM Services Agreement with LALC. Through this PCCM Services Agreement, our wholly-owned subsidiary, PCCM, has exclusive authority over all non-medical decision-making related to the ongoing business operations of LALC. Based on the provisions of the PCCM Purchase Agreement, we have determined that LALC is a variable interest entity (VIE), and that we are the primary beneficiary because we have control over the operations of the VIE. Consequently, we consolidated the accounts of LALC beginning on the PCCM Acquisition date. As a result of this consolidation, we recorded additional non-controlling interest of \$164,276.

The following table summarizes the fair value of LALC’s assets acquired and liabilities at the date of acquisition of PCCM and consolidation of LALC:

Purchase Price	70,000
Fair value of net assets acquired	
Cash	\$164,210
Prepaid expenses	9,472
Property and equipment	26,041
Management services agreement	38,000
Accounts payable and accrued liabilities	(1,447)
Due from officer	(34,000)
Non-controlling interest	(164,276)
Net assets acquired	\$38,000
Goodwill	\$32,000

Verdugo Medical Management, Inc.

On August 1, 2012, Apollo entered into a stock purchase agreement (the "VMM Purchase Agreement") with the sole shareholder ("VMM Shareholder") of Verdugo Medical Management, Inc. ("VMM"), a provider of management services pursuant to a management services agreement (the "VMM MSA") with a medical group specializing in pulmonary and critical care patient services ("Group"), under which the Company will acquire all of the issued and outstanding shares of capital stock of VMM for \$1,200. In addition, VMM Shareholder will enter into a consulting agreement with ApolloMedACO as chairman of its ACO advisory board and will receive the right to acquire 1,200,000 shares of the Company's restricted common stock for \$0.001 per share. In the event the VMM Shareholder consulting agreement is terminated for "any or no reason", the Company will have the right, but not the obligation, to repurchase at \$0.001 per share 800,000 shares if the agreement is terminated within twelve months of the date of the VMM Purchase Agreement, and repurchase 400,000 shares if the agreement is terminated within 24 months. The fair value of the shares is estimated to be \$480,000, and will be accounted for as an employee restricted stock award in accordance with *ASC 718, Share-based payments*.

As August 1, 2012 VMM'S assets consisted only of the VMM MSA with Group. The VMM MSA provides VMM with exclusive authority over all substantial non-medical decision-making related to the ongoing business operations of VMM. Based on the provisions of the VMM Purchase Agreement and MSA, we have determined that Group is a variable interest entity (VIE), and that we are the primary beneficiary because we have control over the operations of the VIE. Consequently, we will account for Group as a business combination in accordance with *ASC 805, Business Combinations* and consolidate the accounts of Group beginning August 1, 2012.

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 January 31, 2012, filed with the Securities and Exchange Commission (SEC) on May 15, 2012.

In this Quarterly Report, unless otherwise expressly stated or the context otherwise requires, "Apollo," "we," "us" and "our" refer to Apollo Medical Holdings, Inc., a Delaware corporation, and its wholly-owned subsidiary-management company, Apollo Medical Management, Inc., and affiliated medical groups. Our affiliated professional organizations are separate legal entities that provide physician services 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. Also, unless otherwise expressly stated or the context otherwise requires, "our affiliated hospitalists" refer to physicians employed or contracted by either our wholly-owned subsidiaries or our affiliated professional organizations. 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 of such words 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 Quarterly 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 leading provider of hospital-based services in Los Angeles, California and Central California. The Company offers a range of services including, Hospitalist, Pulmonary Critical Care, Care management and Consulting Services. ApolloMed, through its affiliated medical groups, provide its services to over 50 Health plans, Independent Physician Associations and Hospitals. On July 10, 2012, ApolloMed ACO was notified that it had been selected by the Centers for Medicare and Medicaid Services (“CMS”) to participate in the Medicare Shared Savings Program (“MSSP”). The Medicare Shared Savings Program model is designed to encourage the development of Accountable Care Organizations (“ACOs”), which can be comprised of hospitals, doctors and other health care providers who work together and are accountable for quality outcomes and the overall patient experience, while reducing the growth in Medicare expenditures.

Executive Summary

For the three months ended July 31, 2012, the Company’s executive management and certain of our physicians were focused on several forward-looking initiatives, including efforts in obtaining Company designation as an Accountable Care Organization (“ACO”) as defined under the Medicare Shared Savings Program (Section 3022 of the PPACA) (“MSSP”). The ACO concept places a degree of financial responsibility on the providers in hopes of improving care management and limiting unnecessary expenditures while continuing to provide patients freedom to selection of their medical services. The Company believes that in establishing an ACO, ApolloMed will be able to leverage its medical management expertise to efficiently manage patient’s costs through improved communication between physicians and their patients, which should lead to improved patient outcomes and lower readmission rates. ACOs participating in the shared-savings payment model will be able to share in up to 50 percent of their achieved savings, depending on how well they exceed minimum quality performance standards. ApolloMed will be required to raise additional capital to fund this opportunity.

We incurred a loss from operations of \$63,026 for the three months ended July 31, 2012, compared to \$83,339 for the three months ended July 31, 2011, and a loss from operations of \$116,179 for the six months ended July 31, 2012 compared to \$270,783 for the six months ended July 31, 2011. To date the Company has funded its operations from internally generated cash flow and external sources, the proceeds from the Senior Secured Note and the proceeds available from the private placement of convertible notes which have provided funds for near-term operations and growth. The current operating plan indicates that losses from operations may be incurred for all of fiscal 2013 and maturing debt in fiscal 2013 totals \$1,520,000. Consequently, we may not have sufficient liquidity necessary to sustain operations for the next twelve months and this raises substantial doubt that we will be able to continue as a going concern. The Company intends to seek to raise additional capital through public or private equity financings, partnerships, joint ventures, disposition of assets, debt financings, bank borrowings or other sources of financing.

No assurances can be made that management will be successful in achieving its plan. If the Company is not able to raise substantial additional capital in a timely manner, the Company may be forced to cease operations.

Results of Operations and Operating Data

Three Months Ended July 31, 2012 vs. Three Months Ended July 31, 2011

Net revenues for the three months ended July 31, 2012 of \$1,649,651 increased \$555,743, or 51 percent over net revenues of \$1,093,708 for the three months ended July 31, 2011, \$191,304 of the increase is due to the Company's acquisition of LALC and \$364,439 increase is due to growth of fee for service revenues attributable to new hospital contracts, and expansion of services with existing medical group clients at new hospitals. Net revenues are comprised of net billings under the various fee structures from health plans, medical groups/IPA's and hospitals, and income from service fee agreements.

Cost of services includes the payroll and consulting costs of the physicians, and costs for all medical malpractice insurance and physician privileges. Cost of services was \$1,205,673 for the three months ended July 31, 2012, or 73% of revenues, compared to \$939,336 for the three months ended July 31, 2011, or 86% of revenues. The increase of \$266,337 is attributable to a \$325,329 increase in physician costs attributable to new physicians hired to support new contracts, \$95,122 increase related to the acquisition of PCCM and consolidation of LALC, partially offset by a decrease of \$93,565 in non-cash stock non-physician consulting services included in general and administrative expenses; and a decrease of \$60,550 in salary expense attributable to less time spent as a practicing physician by Dr. Hosseinion and more as Chief Executive Officer beginning in the second quarter of 2012. As a result of the need to oversee the Company's growth and strategic initiatives, particularly the ACO initiative, Dr. Hosseinion began dedicating more time as the Company's CEO in this second quarter and therefore, certain of his compensation was more properly classified in general and administrative expenses. Excluding the effect of the classification as general and administrative expenses of non-cash stock consulting services and salary attributable to the increased Chief Executive Officer duties, cost of services as a percentage of revenues for the three months ended July 31, 2012 would have been 83%.

General and administrative expenses include administrative salaries, and related benefits; supplies and operating expenses, billing and collections functions, and our corporate management and overhead not specifically related to the day-to-day operations of our physician group practices. General and administrative expenses were \$501,858, or 30 % of revenues, for the three months ended July 31, 2012 compared to \$235,130 for the three months ended July 31, 2011, or 21 % of revenues. The increase of \$266,728 is primarily the result of an increase in professional and consulting fees of \$63,095 costs to support the continuing growth of our operations, \$31,095 increase in salaries and wages to support bringing the Company's medical billing in-house, \$43,750 increase due to classification of a portion of Dr. Hosseinion's salary for less time spent as a practicing physician by Dr. Hosseinion and more as Chief Executive Officer, \$144,540 increase in non-cash stock compensation due to the addition of two new directors to the Company's board of directors, \$18,623 in additional administrative expenses due to the acquisition of PCCM and consolidation of LALC, partially offset by a decrease in other expense of \$34,333.

Depreciation and amortization expense was \$4,946 for the three months ended July 31, 2012 compared to \$2,580 for the three months ended July 31, 2011 primarily due to the addition of the Company's investment in a new billing system.

Loss from operations was \$63,026 for the three months ended July 31, 2012 compared to a loss from operations of \$83,339 in the same period in 2011, a decrease of \$20,313 due to improvements in 2012 revenues and gross profit while adding contracts with hospitals, IPAs and Health plans and the hiring of several additional physicians.

Loss on change in fair value of warrant and derivative liabilities of \$2,914,549 for three months ended July 31, 2012 reflects the change in the fair value of the Company's warrant and derivative liabilities from April 30, 2012 to July 31, 2012.

Interest expense and financing cost was \$224,906 for the three months ended July 31, 2012, compared to \$40,978 for the three months ended July 31, 2011. The increase of \$183,928 was due to higher discount amortization of \$163,458, higher interest and financing cost amortization expense due to the Senior Secured Notes of \$17,585 and \$2,885 due to other borrowings.

Net loss was \$3,202,026 for the three months ended July 31, 2012, compared to a net loss of \$122,833 for the three months ended July 31, 2011. The increase in the net loss of \$3,079,193 is primarily related to increase in the fair value of the Company's warrant and derivative liabilities during the quarter.

Six Months Ended July 31, 2011 vs. Six Months Ended July 31, 2010

Net revenues for the six months ended July 31, 2012 of \$3,281,295 increased \$1,147,895, or 54%, over net revenues of \$2,133,400 for the six months ended July 31, 2011. Net revenues are comprised of net billings by AMH under the various fee structures from health plans, medical groups/IPA's and hospitals, and income from service fee agreements. The increase was attributable to new hospital contracts, increased same-market area growth and expansion of services with existing medical group clients at new hospitals.

Cost of services for the six months ended July 31, 2012 were \$2,534,332 or 77% of net revenues compared to \$1,886,825, at 88% of net revenues, for the six months ended July 31, 2011. The increase of \$647,507 is attributable to a \$542,891 increase in physician costs attributable to new physicians hired to support new contracts, \$156,524 increase related to the acquisition of PCCM and consolidation of LALC, partially offset by a decrease of \$60,550 in salaries attributable to the allocation of Dr. Hosseinion's services as Chief Executive Officer of the Company included in general and administrative expenses. Dr. Hosseinion began dedicating less time as a practicing physician and more

time as the Company's CEO in this second quarter as result of the need to oversee the Company's growth and strategic initiatives, particularly the ACO initiative, and these expenses were more properly classified in general and administrative expenses.

General and administrative expenses include all salaries, benefits, supplies and operating expenses, including billing and collections functions, and our corporate management and overhead not specifically related to the day-to-day operations of our physician group practices. General and administrative expenses were \$853,405, or 26% of net revenues, for the six months ended July 31, 2012, an increase of \$341,920, compared to general and administrative expenses of \$511,485 for the six months ended July 31, 2011, or 24% of net revenues. The increase of \$341,920 is primarily the result of an increase in professional and consulting fees of \$57,801 to support the continuing growth of our operations, \$52,745 increase in salaries and wages to support bringing the Company's medical billing in-house, \$43,750 increase due to classification of a portion of Dr. Hosseinion's salary for less time spent as a practicing physician and more as Chief Executive Officer, \$137,207 increase in non-cash stock compensation due to the addition of two new directors to the Company's board of directors, \$73,134 in additional administrative expenses due to the acquisition of PCCM and consolidation of LALC, partially offset by a decrease in other expense of \$22,717.

Depreciation and amortization expense was \$9,737 for the six months ended July 31, 2012 compared to \$5,873 for the same period in 2011.

Loss from operations was \$116,179 for the six months ended July 31, 2012 compared to a loss from operations of \$270,783 for the same period in 2011, a decrease of \$154,604 due to improvements in 2012 revenues and gross profit while adding contracts with hospitals, IPAs and Health plans and the hiring of several additional physicians.

Loss on change in fair value of warrant and derivative liabilities of \$2,790,711 for the six months ended July 31, 2012 reflects the change in the fair value of the Company's warrant and derivative liabilities from January 31, 2012 to July 31, 2012.

Interest expense and financing cost was \$448,942 for the six months ended July 31, 2012, compared to \$81,927 for the six months ended July 31, 2011. The increase of \$367,015 was due to higher discount amortization \$326,916, higher interest expense and financing cost amortization expense due to the Senior Secured Notes \$29,645, and \$10,454 due to other borrowings.

Net loss was \$3,360,182 for the six months ended July 31, 2012, compared to a net loss of \$351,764 for the six months ended July 31, 2011. The increase in the net loss of \$3,008,418 is primarily related to the change in the fair value of the Company's warrant and derivative liabilities.

Liquidity and Capital Resources

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The Company had \$259,095 in cash and cash equivalents at July 31, 2012. We incurred a loss from operations of \$63,026 and \$116,179 for the three and six months ended July 31, 2012, respectively. To date the Company has funded its operations from internally generated cash flow and external sources, the proceeds from the Senior Secured Note and the proceeds available from the private placement of convertible notes which have provided funds for near-term operations and growth. The current operating plan indicates that losses from operations may be incurred for all of fiscal 2013 and maturing debt in fiscal 2013 totals \$1,520,000. Consequently, we may not have sufficient liquidity necessary to sustain operations for the next twelve months and this raises substantial doubt that we will be able to continue as a going concern.

The Company intends to seek raise additional capital through public or private equity financings, partnerships, joint ventures, disposition of assets, debt financings, bank borrowings or other sources of financing to refinance maturing debt, provide working capital and support its ACO initiative. No assurances can be made that management will be successful in achieving its plan. If the Company is not able to raise substantial additional capital in a timely manner, the Company may be forced to cease operations.

Six months ended July 31, 2012

For the six months ended July 31, 2012, cash used in operations was \$64,605. This was substantially a result of net losses of \$3,360,182, cash used in working capital of \$57,745, partially offset by non-cash expenses of \$3,353,323. Non-cash expenses primarily include depreciation, issuance of shares of common stock for service, stock option compensation expense, amortization of financing costs, amortization of debt discount, and gain on change in fair value of warrant and derivative liabilities. Cash was used for working capital due to an increase in trade receivables of \$4,137, an increase in due from affiliates of \$3,296, an increase in financing costs of \$5,000, and increase in prepaid expenses and advances of \$9,516 and an increase in other assets of \$1,450, and a decrease in accounts payable and accrued liabilities of \$40,688; partially offset by a net increase in due to officers of \$6,342.

For the six months ended July 31, 2012, cash used in investing activities was \$10,662 related to the Company's investment in a new billing system and office technology equipment.

For the six months ended July 31, 2012, cash provided by financing activities was \$170,000 related to proceeds from the Senior Secured Note. Borrowings were used primarily to fund working capital requirements and technology investments.

Six months ended July 31, 2011

Net cash used in operating activities totaled \$53,951 in the six months ended July 31, 2011. The increase in accounts receivable and the increase in accounts payable were the primary cause for the decrease in cash used for operating activities. The increase in accounts payable was a result of timing payroll being issued on August 1, 2011. During the six months ended July 31, 2011, the Company advanced \$800 to an affiliated Company.

Debt Agreements

The following is an overview of the Company's total outstanding debt obligations as of July 31, 2012:

Description of Debt	Lender Name	Interest Rate	July 31, 2012
Senior Secured Note	SpaGus Capital, LLC	8.9	% \$ 270,000
10% Senior Subordinated Callable Convertible Notes due January 31, 2013	Various	10.0	% 1,250,000
8% Senior Subordinated Convertible Promissory Notes due February 1, 2015	Various	8.0	% 150,000
Total debt			1,520,000
Debt discount			(326,718)
Net debt			\$ 1,343,282

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 January 31, 2012. There have been no changes to our critical accounting policies since January 31, 2012.

Off Balance Sheet Arrangements

As of July 31, 2012, we had no off-balance sheet arrangements.

Recently Adopted and New Accounting Pronouncements

See Note 2 to the Condensed Consolidated Financial Statements for information regarding recently adopted and new accounting pronouncements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company does not hold any variable rate borrowings. The Company does not hold any derivative instruments and does not engage in any hedging activities.

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 July 31, 2012, 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 July 31, 2012.

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 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 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 July 31, 2012, our internal controls over our financial reporting are not effective. The Company is taking remediating steps to address each material weakness. 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 July 31, 2012 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 provided by our affiliated physicians. We may also become subject to other lawsuits, which could involve significant claims and/or significant defense costs.

We believe, based upon our review of pending actions and proceedings that the outcome of such legal actions and proceedings will not have a material adverse effect on our 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 our business, financial condition, results of operations, or cash flows in a future period.

ITEM 1A. RISK FACTORS

Omitted

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

200,000 shares of Common Stock were issued in equal amounts on May 1, 2012 and June 1, 2012 to Gary Augusta under a private placement during the three months ended July 31, 2012 pursuant to section 4(2) of the Securities Act of 1933. The shares were issued in consideration for consulting services.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit Number Description

- 3.1 Certificate of Incorporation (filed as an exhibit to Registration Statement on Form 10-SB filed on April 19, 1999, and incorporated herein by reference).
- 3.2 Certificate of Ownership (filed as an exhibit to Current Report on Form 8-K filed on July 15, 2008, and incorporated herein by reference).
- 3.3 Second Amended and Restated Bylaws (filed as an exhibit to Form 10-Q filed on September 14, 2011, and incorporated herein by reference).
- 4.1 Form of 10% Senior Subordinated Convertible Note, dated October 16, 2009 (filed as an exhibit on Annual Report on Form 10-K on May 14, 2010, and incorporated herein by reference).
- 4.2 Form of Investor Warrant, dated October 16, 2009, for the purchase of 25,000 shares of common stock. (filed as an exhibit on Annual Report on Form 10-K/A on March 28, 2012, and incorporated herein by reference).

Exhibit 31 - Rule 13a-14(d)/15d-14(d) Certifications

- 31.1+ Certification by Chief Executive Officer
- 31.2+ Certification by Chief Financial Officer

Exhibit 32 - Section 1350 Certifications

- 32.1+ Certification by Chief Executive Officer pursuant to 18 U.S.C. section 1350.
- 32.2+ Certification by Chief Financial Officer pursuant to 18 U.S.C. section 1350

Exhibit 101 – Interactive Data Files

101* XBRL instance document.

*The XBRL information is being furnished and not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not incorporated by reference into any registration statement under the Securities Act of 1933, as amended.

+ Filed herewith.

24

SIGNATURES

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

APOLLO MEDICAL HOLDINGS, INC.

Dated: September 14, 2012 By: /s/ Warren Hosseinion
Warren Hosseinion
Chief Executive Officer and Director

Dated: September 14, 2012 By: /s/ Kyle Francis
Kyle Francis
Chief Financial Officer
(Principal Financial and Accounting Officer)