

Apollo Medical Holdings, Inc.  
Form 10-Q  
December 17, 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 **OCTOBER 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 December 17, 2012, there were 34,843,441 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**

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

APOLLO MEDICAL HOLDINGS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

**ASSETS**

	October 31, 2012	January 31, 2012
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 500,964	\$ 164,361
Accounts receivable, net	1,323,261	994,118
Advances	11,275	2,140
Due from affiliate	27,756	5,504
Prepaid expenses	62,645	45,601
Deferred financing costs, current	79,432	37,500
Total current assets	2,005,333	1,249,224
Deferred financing costs, non-current	47,446	-
Property and equipment, net	41,935	43,261
Intangible assets	39,200	38,000
Goodwill	32,000	32,000
Other assets	1,450	1,563
<b>TOTAL ASSETS</b>	<b>\$ 2,167,364</b>	<b>\$ 1,364,048</b>

**LIABILITIES AND STOCKHOLDERS' DEFICIT****CURRENT LIABILITIES:**

Accounts payable and accrued liabilities	\$ 627,921	\$ 163,476
Senior secured promissory note	500,000	-
10% Convertible notes payable, net	-	596,366
Derivative liability	-	653,026
Stock issuable	63,000	90,000
Due to officers	18,742	12,400
Total current liabilities	1,209,663	1,515,268
Convertible notes payable, net	1,036,288	150,000
Warrant liability	-	120,000
Total liabilities	2,245,951	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, 34,768,441 and 29,335,774 shares issued and outstanding as of October 31, 2012 and January 31, 2012, respectively	35,269	29,336
Prepaid consulting	(691,310 )	-
Additional paid-in-capital	10,795,547	1,429,051
Accumulated deficit	(10,199,290)	(2,117,708)
Total	(59,784 )	(659,321 )
Non-controlling interest	(18,803 )	238,101
Total stockholders' deficit	(78,587 )	(421,220 )
 TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	 \$2,167,364	 \$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 October 31,		Nine months ended October 31,	
	2012	2011	2012	2011
REVENUES	\$ 1,965,153	\$ 1,431,965	\$ 5,246,448	\$ 3,565,366
COST OF SERVICES	1,798,957	1,097,132	4,333,289	2,993,020
GROSS PROFIT	166,196	334,833	913,159	572,346
Operating expenses:				
General and administrative	1,598,373	204,690	2,451,778	706,312
Depreciation	5,048	3,941	14,785	9,814
Total operating expenses	1,603,421	208,631	2,466,563	716,126
(LOSS) INCOME FROM OPERATIONS	(1,437,225 )	126,202	(1,553,404 )	(143,780 )
Other income (expense)				
Loss on change in fair value of derivative liabilities	(3,063,144 )	-	(5,853,855 )	-
Interest expense	(200,463 )	(33,672 )	(608,510 )	(96,849 )
Financing cost	(20,776 )	(34,375 )	(61,671 )	(53,125 )
Other income	207	49	657	2,595
Total other expenses	(3,284,176 )	(67,998 )	(6,523,379 )	(147,379 )
(LOSS) INCOME BEFORE INCOME TAXES	(4,721,401 )	58,204	(8,076,783 )	(291,159 )
Provision for Income Tax	-	-	4,800	2,400
NET (LOSS) INCOME	\$(4,721,401 )	\$58,204	\$(8,081,583 )	\$(293,559 )
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING - BASIC AND DILUTED	33,440,542	29,331,970	31,673,682	28,992,367
BASIC AND DILUTED NET LOSS PER SHARE	\$(0.15 )	\$0.00	\$(0.24 )	\$(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)

	Nine months ended October 31,	
	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$(8,081,583)	\$(293,559)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation expense	14,785	9,814
Bad debt expense	37,493	5,254
Issuance of shares for services	1,222,353	63,000
Non-cash stock option expense	509,948	21,999
Amortization of financing costs	61,671	28,125
Amortization of debt discount	490,374	603
Loss on change in fair value of warrant and derivative liabilities	5,853,855	25,000
Changes in assets and liabilities:		
Accounts receivable	(252,755 )	(185,444)
Due to officers	6,342	14,953
Due from affiliates	(5,771 )	(825 )
Deferred financing cost	(55,000 )	-
Prepaid expenses and advances	(35,790 )	(13,244 )
Other assets	(1,450 )	-
Accounts payable and accrued liabilities	441,477	22,092
Net cash provided by (used in) operating activities	205,948	(302,232)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Property and equipment acquired	(13,459 )	(5,136 )
Acquisition, net of cash acquired from consolidation of VIE	14,114	164,210
Net cash provided by investing activities	655	159,074
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from note payable	500,000	150,000
Distribution to non-controlling interest shareholder	(370,000 )	(154,290)
Net cash provided by (used in) financing activities	130,000	(4,290 )
<b>NET INCREASE (DECREASE) IN CASH &amp; CASH EQUIVALENTS</b>	<b>336,603</b>	<b>(147,448)</b>
<b>CASH &amp; CASH EQUIVALENTS, BEGINNING BALANCE</b>	<b>164,361</b>	<b>397,101</b>
<b>CASH &amp; CASH EQUIVALENTS, ENDING BALANCE</b>	<b>\$500,964</b>	<b>\$249,653</b>

## SUPPLEMENTARY DISCLOSURES OF CASH FLOW INFORMATION

Interest paid	\$15,000	\$63,599
Income Taxes paid	\$9,040	\$-
Non-Cash Financing Activities		
Shares issued in connection with acquisitions	\$-	\$280,000
Contingent consideration payable	\$-	\$367,500
Shares and warrants issued in connection with promissory note financing costs	\$144,485	\$-
Warrants issued in connection with promissory note amendment	\$200,452	\$-
Warrants and derivative reclassified from liabilities to stockholders' deficit	\$6,626,881	\$-
Shares issued for prepaid consulting	\$691,310	\$-

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”), Verdugo Medical Management, Inc. (“VMM”) and ApolloMed Accountable Care Organization, Inc. (“ApolloMed ACO”). Through AMM, PCCM, and VMM, the Company manages affiliated medical groups, which consists of ApolloMed Hospitalists (“AMH”), Los Angeles Lung Center (“LALC”) and a pulmonary medical practice (“Verdugo”). AMM, PCCM and VMM each operate as a physician practice management company (“PPM”) and are in the business of providing management services to physician practice companies (“PPC” ‘s) under long-term management service agreements.

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. 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”), ApolloMed ACO, PCCM, and VMM as well as PPC’s managed under long-term management service agreements including AMH, LALC and Verdugo. 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 PPC’s, 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 PMC’s, 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 PPC’s, we have exclusive authority over all non-medical decision making related to the ongoing business operations of the PPC’s. 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 PPC’s 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 October 31, 2012 which contributed 20.8%, 6.3% and 4.2% of revenue, respectively, and during the three month period ended October 31, 2011 which contributed 30.2 %, 10.3 % and 6.1% of revenue, respectively.

The Company had three major customers during the nine month period ended October 31, 2012 which contributed 24.0%, 7.7% and 4.9% of revenue, respectively, and during the nine month period ended October 31, 2011 which contributed 36.9 %, 19.1% and 7.9 %, of revenue, respectively.

Receivables from these customers amounted to 9.7 %, 9.4%, and 5.5% of total accounts receivable at October 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 October 31, 2012, include cash in bank representing the Company's current operating accounts and \$22,789 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 include 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 loss from operations of \$1,437,225 and \$1,553,404 for the three and nine months ended October 31, 2012 respectively, compared to income from operations of \$126,202 and loss from operations of \$143,780 for the three and nine months ended October 31, 2011, respectively. As of October 31, 2012 the Company has an accumulated deficit of \$10,199,290 and a total stockholders' deficit of \$78,587.

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. 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 October 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 terms of the respective notes.

#### **6.Property and Equipment**

Property and equipment consisted of the following:

	October 31, 2012	January 31, 2012
Website	\$4,568	\$4,568
Computers	19,639	13,912
Software	160,385	155,039
Machinery and equipment	73,939	71,553
Furniture and fixtures	5,302	5,302
Leasehold improvements	8,198	8,198
Gross Property and Equipment	272,031	258,572
Less accumulated depreciation	(230,096)	(215,311)
Net Property and Equipment	\$41,935	\$43,261

**7. Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities consisted of the following:

	October 31, 2012	January 31, 2012
Accounts payable	\$ 192,148	\$ 109,704
D&O insurance payable	979	11,444
Income taxes payable	752	4,219
Accrued interest	35,250	1,000
Accrued professional fees	36,047	27,500
Accrued compensation	362,746	9,609
	\$627,921	\$ 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 (“SpaGus”) 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 the Company’s common stock, which was valued at \$25,661 at the date of issuance

On September 15, 2012, SpaGus agreed to allow the Company to defer payment of the scheduled principal payments due on September 15 and October 15, 2012, and amended the Note effective October 15, 2012 in which SpaGus agreed to provide additional principal to the Company in the amount of \$230,000. The terms of the amended Note provide for borrowings to bear interest at 8.0 % per annum with accrued interest payable in arrears on each of December 28, 2012, March 31, 2013, June 30, 2013 and October 15, 2013. The amended Note will mature of October 15, 2013, and may be prepaid at any time prior to September 29, 2013. The Company paid SpaGus financing costs of 100,000 restricted shares of the Company’s common stock on the amendment date, which transaction was fair valued at \$50,000, and is obligated to pay SpaGus an additional 100,000 restricted shares of the Company’s common stock if the amended Note principal and or any accrued interest is outstanding on April 15, 2013. The Company accounted for this amendment as a modification. Amendment financing costs will be amortized to interest expense over the life of the amended Note using the effective interest method. Related interest expense, including financing cost amortization, was \$16,139 and \$50,784 for the three and nine months ended October 31, 2012, respectively.

**9. Convertible Notes**

The Company's convertible notes consisted of the following:

	October 31, 2012	January 31, 2012
10% Senior Subordinated Convertible Notes due January 31, 2016, net of debt discount of \$363,712 ( October 31, 2012) and \$653,026 (January 31, 2012)	\$ 886,288	\$ 596,366
8% Senior Subordinated Convertible Notes due February 1, 2015	150,000	150,000
Total Convertible Notes	1,036,288	746,366
Less: Current Portion	-	596,366
Long Term Portion	\$ 1,036,288	\$ 150,000

*10% Senior Subordinated Callable Convertible Notes due January 31, 2016*

On October 16, 2009, the Company issued \$1,250,000 of its 10% Senior Subordinated Callable Convertible Notes (the "10% 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.

On October 29, 2012, the Company amended the terms of the 10% Notes to extend the maturity to January 31, 2016, and to fix the conversion price of the 10% Notes at \$0.11485 per share. The Company accounted for this amendment as a modification. As a result of fixing the conversion price, the Company determined that the conversion feature was indexed to the Company's common stock, and should be equity classified. The fair value of the derivative liability immediately prior to the amendment was \$5,605,703 determined using the Black-Scholes option pricing model with the following inputs: expected life 0.25 years; 80% stock price volatility; risk-free rate of 0.18% and no dividends. The fair value of the conversion right giving effect to the amendment was \$5,818,149 using the Black-Scholes option pricing model with the following inputs: expected life 3.25 years; 80% stock price volatility; risk free rate of 0.37% and no dividends, and was reclassified from derivative liability to additional paid-in capital in the accompanying condensed consolidated balance sheet. The difference in the pre-amendment and post-amendment derivative fair values of \$212,446 was recorded as a loss on modification and included in the accompanying condensed consolidated statement of operations. The Company paid placement fees to an agent in the form of warrants to purchase 100,000 shares of the Company's common stock with an exercise price of \$0.50 per share and contractual life of 60 months; and 20,000 restricted shares of the Company's common stock. The fair value of the warrants was \$56,225 using the Black-Scholes option pricing model with the following model assumptions: expected life 60 months; 80% stock price volatility; risk-free interest rate of 0.37%, and no dividends during the expected term. The fair value of the restricted shares was \$12,600. The total fair value of the warrants and restricted shares was \$68,825 and was recorded as deferred financing costs and an increase to additional paid in capital. The deferred financing costs will be amortized to interest expense using the effective interest method through January 31, 2016.

The Company also amended the Warrants on October 29, 2012 to extend the expiration date to July 31, 2016 and to fix the Warrant's exercise price at \$0.11485 per share. At January 31, 2012 the Warrants were reclassified as warrant liabilities in accordance with ASC 815-40 as the Warrants did not meet the criteria to be indexed to the Company's common stock and classified as equity. At the Warrant amendment date, the Company reassessed the classification of the Warrants as a result of fixing the conversion price, and determined that the amended Warrants met the criteria to be indexed to the Company's common stock, and should be equity-classified. The Company determined that the fair of the Warrants immediately prior to the Warrant amendment was \$785,135 using the Black-Scholes option pricing model inputs of: expected life 2.0 years; 80% stock price volatility; risk-free interest rate of 0.28%, and no dividends during the expected term. The fair value of the Warrants giving effect to the amendment was \$808,732 was reclassified from warrant liability to additional paid-in capital in the accompanying condensed consolidated balance sheet, and was determined using the Black-Scholes option pricing model inputs of: expected life 3.8 years; 80% stock price volatility; risk-free interest rate of 0.37%, and no dividends during the expected term. The difference between the pre-amendment and post-amendment Warrant fair values of \$24,437 was recorded as a loss on modification and included in the accompanying condensed consolidated statement of operations.

In addition, each \$2.50 of 10% Note principal received one warrant to purchase one share of the Company's common stock, or a total of 500,000 shares, for \$0.45 per share (the "Amendment Warrants"). The fair value of the Amendment Warrants was \$200,452 determined using the Black-Scholes option pricing model with the following inputs: expected life 3.8 years; 80% stock price volatility; risk-free interest rate of 0.37%, and no dividends during the expected term. The Company recorded this amount as additional debt discount and an increase to additional paid-in capital in the accompanying condensed consolidated balance sheet, and will amortize the debt discount to interest expense using the effective interest method over the term of the amended 10% Notes.

#### *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, including amortization of related debt discount and financing costs, was \$205,100 and \$68,047 for the three month periods ended October 31, 2012 and 2011, respectively, and \$619,397 and \$149,974 for the nine months ended October 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 October 31, 2012.

The following summarizes the activity of Level 3 inputs measured on a recurring basis for the nine months ended October 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	-	-	-
Reclassification (Note 9)	(5,818,149)	(808,732)	(6,626,881)
Adjustment resulting from change in fair value recognized in earnings	5,165,123	688,732	5,853,855
Balance at October 31, 2012	\$-	\$-	\$-

### 11. Related Party Transactions

Due to officers of \$18,472 and \$12,400 at October 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 nine months ended October 31, 2012 consisted of the following:

Balance as of January 31, 2012	\$238,101
Consolidation of VIE (Note 16)	113,096
Distributions to non-controlling interest shareholder	(370,000)
Balance as of October 31, 2012	\$(18,803 )

### 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**

##### **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..

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.

On August 31, 2012 the Company's Board of Directors amended the 2010 Equity Incentive Plan, and adopted the 2012 Incentive Plan (the "2012 Plan"), which allowed the Board to grant an additional 5,000,000 shares up to 10,000,000 shares of the Company's common stock. The 2012 Plan awards include incentive stock option, non-qualified options, restricted common stock, and stock appreciation rights. As of October 31, 2012, approximately 1,658,000 shares are available for future grants under the 2012 Plan. The Company issues new shares to satisfy stock option and warrant exercises

## 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 ; (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.

On September 15, 2012, the Company's Board of Directors authorized the issuance of 3,350,000 shares of the Company's common stock to certain employees and consultants as follows: (i) 1,200,000 common shares purchased by the sole shareholder of Verdugo for \$0.001 per share, pursuant to a consulting agreement dated August 1, 2012 in which if the Verdugo shareholder 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 (Note 16), and repurchase 400,000 shares if the agreement is terminated within 24 months. The fair value of the shares was estimated to be \$480,000, and the share purchase will be accounted for as prepaid consulting and amortized over the life of the agreement; (ii) 1,000,000 common shares purchased by Dr. Warren Hosseinion, the Company's Chief Executive Officer, for \$0.001 per share with a fair value of \$420,000 and expensed at grant date; (iii) 700,000 common shares purchased by Mr. Kyle Francis, the Company's Chief Financial Officer, for \$0.001 per share with a fair value of \$269,500 and expensed at grant date; (iv) 316,667 common shares purchased by certain employees and consultants for \$0.001 per share with a fair value of \$196,000 and expensed at grant date.

On October 15, 2012 the Company's Board of Directors authorized the issuance of 100,000 shares of the Company's common stock to SpaGus Capital Partners, LLC in connection with the amendment of the Company's Senior Secured Promissory Note with a fair value of \$50,000 (see Note 8).

On October 18, 2012 the Company's Board of Directors authorized the issuance of 400,000 restricted shares of the Company's common stock with a fair value of \$168,000 to Mr. Mark Meyers, pursuant to Mr. Meyers' appointment to the Company's Board of Directors. On October 22, 2012 the Company's Board of Directors authorized the issuance of 500,000 restricted shares of the Company's common stock with a fair value of \$210,000 to Mr. Mitch Creem, pursuant to Mr. Creem's appointment to the Company's Board of Directors. Mr. Meyers and Mr. Creem's restricted share grants each vest on a monthly basis over 36 months and will be accounted for as prepaid consulting and amortized over the life of their respective agreements.

On October 29, 2012 the Board of Directors authorized the issuance of 20,000 shares of the Company's common stock with a fair value of \$12,600 to 10% Notes placement agent (see Note 9).

### **Warrants outstanding**

Warrants consisted of the following:

	Aggregate intrinsic value	Number of warrants
Outstanding at January 31, 2012	\$ -	1,500,000
Granted	-	2,100,000
Exercised	-	-
Cancelled	-	(1,500,000)
Outstanding at October 31, 2012	\$ -	2,100,000



Exercise Price	Warrants outstanding	Weighted average remaining contractual life	Warrants exercisable	Weighted average exercise price
\$ 0.11485	1,250,000	3.76	1,250,000	\$0.11485
\$ 0.11485	250,000	3.76	250,000	\$0.11485
\$ 0.45000	500,000	3.76	500,000	\$0.45000
\$ 0.50000	100,000	5.00	100,000	\$0.50000
	2,100,000	3.82	2,100,000	\$0.21299

In conjunction with the completion of the private placement on October 16, 2009, the Company issued a total of 1,500,000 warrants (“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 had a five-year term and expire on October 31, 2014. On October 29, 2012 the Company, in connection with amendment of its 10% Senior Subordinated Convertible Notes amended the Warrants in which the exercise price was fixed at \$0.11485 per share and in which the term was extended to July 31, 2016. In addition, the Company issued to the 10% Note holders warrants to acquire 500,000 shares of the Company’s common stock at \$0.45 per share, which have a term that extends to July 31, 2016. The Company issued to the placement agent in the 10% Notes amendment warrants to acquire 100,000 shares of the Company’s common stock at \$0.50 per share (see Note 9).

### Options outstanding

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 for the three months ended October 31, 2012 and 2011, and related compensation expense was \$18,764 and \$21,999 for the nine months ended October 31, 2012 and 2011, respectively. Unrecorded compensation cost related to non-vested the 2011 option awards was \$6,254 at October 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, 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 \$85,000 for the three and nine months ended October 31, 2012, respectively. Unrecorded compensation cost related to non-vested option awards to Mr. Schreck was \$35,000 as of October 31, 2012, which will be recognized through fiscal year ending January 31, 2014, subject to Mr. Schreck's continued role as director.

On September 15, 2012 the Company's Board of Directors authorized the issuance of stock options to acquire 3,075,000 shares of the Company's common stock to certain of the Company's physicians and medical professionals. The options substantially vest in three equal installments on each September 15, 2012, July 31, 2013 and July 31, 2014, and expire on the tenth anniversary of issuance. The fair value of the options was estimated to be \$907,796 determined using the Black-Scholes option pricing model based on the following inputs: exercise price of \$0.21, expected term of 3.7 years, interest rate of 0.42%, volatility of 80.0% and no dividends. Related compensation cost was \$406,125 for the three months ended October 31, 2012. Unrecorded compensation cost related to these non-vested option awards was \$501,611 as of October 31, 2012, which will be recognized through July 31, 2014, subject to the recipients continued role with the Company.

Stock option activity for the nine months ended October 31, 2012 is 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	4,075,000	0.19	9.7	-
Exercised	-	-	-	-
Expired	-	-	-	-
Forfeited	-	-	-	-
Balance, October 31, 2012	5,225,000	\$ 0.18	9.4	\$ -
Vested and expected to vest	2,608,336	\$ 0.18	9.4	\$ -
Exercisable, October 31, 2012	2,541,669	\$ 0.18	9.4	\$ -

As of October 31, 2012 and January 31, 2012, there was approximately \$542,864 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 October 31, 2012 is expected to be recognized through the fiscal year ending January 31, 2015.

### Authorized stock

At October 31, 2012 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 shares of the 10% Senior Subordinated Callable Convertible Notes, the 8% Senior Subordinated Convertible Promissory Notes, 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 grants. The amount of shares of common stock reserved for these purposes is as follows:

	As of October 31, 2012
Common stock issued and outstanding	34,768,441
Conversion of 10% Notes	10,883,761
Conversion of 8% Notes	600,000
Warrants	2,100,000
Stock options outstanding	5,225,000
	53,577,202

## 15. Commitments

On August 16, 2012, the Company entered into a consulting agreement with Kaneohe Advisors LLC, an entity wholly-owned and controlled by Mr. Kyle Francis, to serve as the Company's Executive Vice President, Business Development and Chief Financial Officer. The term of the agreement is on a month-to-month basis, and provides for Mr. Francis to receive \$11,900 per month and the right to purchase 700,000 shares of the Company's common stock at \$0.001 (see Note 14), and can be terminated by either party at any time.

On October 8, 2012 the Company entered into a consulting agreement with Mr. Mark Meyers ("Meyers Agreement") to perform services as the Company's Chief of Strategy and Business Development, in which Mr. Meyers will receive \$10,000 per month, options to acquire 50,000 shares of the Company's common stock per month at an exercise price of \$0.21 per share, and be eligible for performance-based compensation as determined by the Company's Board of Directors. The Meyers Agreement may be terminated by either party without cause by providing 90 days notice.

In December, 2012 the Company initiated a private placement offering for up to \$1,500,000 par value 9% Senior Subordinated Callable Convertible Promissory Notes maturing February 15, 2016 to be convertible at a conversion price of \$0.40 per share, and warrants expiring June 30, 2018 to purchase a total of up to 1,125,000 shares of the Company's common stock for \$0.45 per share, and warrants issuable to the placement agent expiring June 30, 2018 to purchase up to 250,000 shares of the Company's common stock for \$0.45 per share. The 9% Notes will be callable at a price of 105% of par value unless the average daily trading volume (as defined) is less than \$100,000, then 110% of par value.

## 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.

On October 11, 2012, the Company entered into a Settlement Agreement and Mutual Release (the "Settlement Agreement") with Aligned Healthcare, Inc. ("AHI"), Aligned Healthcare Group, LLC ("Aligned LLC"), Aligned Healthcare Group – California, Inc. ("Aligned Corp."), Jamie McReynolds, M.D., BJ Reese, BJ Reese & Associates, LLC, Marcelle Khalil and Hany Khalil (collectively, the "Aligned Affiliates"). The Settlement Agreement terminates (a) the Company's obligations with respect to the Aligned Affiliates under that certain Stock Purchase Agreement, dated as of February 15, 2011 (the "Purchase Agreement"), among the Company, Aligned LLC, Aligned Corp., Raouf Khalil, Jamie McReynolds, M.D., BJ Reese and BJ Reese & Associates, LLC, as amended by that certain First Amendment to Stock Purchase Agreement, dated as of July 8, 2011, among the Company, Aligned LLC, Aligned Corp., Raouf Khalil, Jamie McReynolds, M.D., BJ Reese and BJ Reese & Associates, LLC, and (b) AHI's obligations to Aligned LLC and Aligned Corp. under that certain Services Agreement, dated as of July 8, 2011, among AHI, Aligned LLC and Aligned Corp.

Under the Settlement Agreement, the Company has reconveyed to Jamie McReynolds, M.D., BJ Reese & Associates, LLC and Aligned Corp. all of the shares of AHI common stock that the Company acquired from those parties under the Purchase Agreement. In addition, Jamie McReynolds, M.D., BJ Reese & Associates, LLC and Aligned Corp. have reconveyed to the Company 500,000 shares of the Company's common stock, constituting all of the shares that were issued to them under the Purchase Agreement. Following these reconveyances, the Company owns 50% of the outstanding shares of AHI's capital stock. The conveyances under the Settlement Agreement were in each case made for no additional consideration. The Settlement Agreement provides for a mutual general release of all claims between the Company and the Aligned Affiliates.

### **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 a 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") to acquire 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 ("Verdugo"), under which the Company will acquire all of the issued and outstanding shares of capital stock of VMM for \$1,200. In addition, the Company's subsidiary, ApolloMed ACO, entered into a consulting agreement with Verdugo's sole shareholder as chairman of its ACO advisory board in which Verdugo's shareholder 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 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 was estimated to be \$480,000 (see Note 14).

As August 1, 2012 VMM'S assets consisted solely of the VMM MSA with Verdugo. 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 Verdugo is a variable interest entity (VIE), and that we are the primary beneficiary because we have control over the operations of the VIE. Consequently, the Company consolidated the accounts of Verdugo beginning August 1, 2012.

The following table summarizes the fair value of Verdugo's assets acquired and liabilities at the date of acquisition of VMM and consolidation of Verdugo:



Purchase Price	\$1,200
Fair value of net assets acquired and consolidation of Verdugo:	
Cash	15,314
Accounts receivable	113,881
Prepaid expenses	6,869
Intangible asset- management agreement	1,200
Accounts payable and accrued liabilities	(22,968 )
Non-controlling interest	(113,096)
Net assets acquired	\$1,200

## 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 October 31, 2012, the Company’s executive management and certain of our physicians were focused on efforts to develop the infrastructure to support Company’s designation as an Accountable Care Organization (“ACO”) as defined under the Medicare Shared Savings Program (Section 3022 of the PPACA) (“MSSP”), which included identifying participating physicians, hiring support staff, and identifying technology and facilities to support the anticipated growth. 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, as the initial outlay of funds will be required in advance of any potential future revenues. We believe this initial outlay will be substantial over the next 18 to 24 months. There can be no assurance that the ACO will be profitable or that we will be successful in raising adequate capital to fund this endeavor.

On August 1, 2012, Apollo entered into a stock purchase agreement (the "VMM Purchase Agreement") to acquire 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 ("Verdugo"), under which the Company will acquire all of the issued and outstanding shares of capital stock of VMM for \$1,200. In addition, the Company's subsidiary, ApolloMed ACO, entered into a consulting agreement with Verdugo's sole shareholder as chairman of its ACO advisory board in which Verdugo's shareholder 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 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 was estimated to be \$480,000.

The Company has generated a loss from operations of \$1,437,225 and \$1,553,404 for the three and nine months ended October 31, 2012 respectively, compared to income from operations of \$126,202 and loss from operations of \$143,780 for the three and nine months ended October 31, 2011, respectively. As of October 31, 2012 the Company has an accumulated deficit of \$10,199,290 and a total stockholders' deficit of \$78,587. 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. 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 October 31, 2012 vs. Three Months Ended October 31, 2011**

Net revenues for the three months ended October 31, 2012 of \$ 1,965,153 increased \$533,188 or 37.2% percent over net revenues of \$1,431,965 for the three months ended October 31, 2011. \$ 230,517 of the increase is due to the Company's acquisition of VMM and consolidation of Verdugo and \$302,671 of the 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 \$1,798,957 for the three months ended October 31, 2012, or 91.5% of revenues, compared to \$1,097,132 for the three months ended October 31, 2011, or 76.6% of revenues. The increase of \$701,825 is attributable to a \$394,565 increase in non-cash stock compensation, \$230,719 increase in physician costs attributable to new physicians hired to support new contracts, \$120,965 increase related to the acquisition of VMM and consolidation of Verdugo, partially offset by decrease of \$44,423 in salary expense attributable to less time spent as a practicing physician by Dr. Hosseinion, the Company's Chief Executive Officer. Excluding the effect of the non-cash stock compensation increase, cost of services as a percentage of revenues for the three months ended October 31, 2011 would have been 71.5%.

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 \$1,598,373, or 81.3 % of revenues, for the three months ended October 31, 2012 compared to \$204,690 for the three months ended October 31, 2011, or 14.3 % of revenues. The increase of \$1,393,683 is primarily the result of an increase in non-cash stock compensation of \$1,084,084 for service based restricted common stock grants to employees, directors and consultants, professional and consulting fees of \$52,878 to support the continuing growth of our operations, \$35,932 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, \$111,529 in additional administrative expenses due to the acquisition of VMM and consolidation of Verdugo in 2012, \$32,329 increase in bad debt expense, \$33,271 increase in ACO-related expenses. Excluding the non-cash stock compensation of \$1,084,084, general and administrative expenses were 25.9% of net revenues.

Depreciation and amortization expense was \$5,048 for the three months ended October 31, 2012 compared to \$3,941 for the three months ended October 31, 2011 primarily due to the addition of the Company's investment in a new billing system.

Loss from operations was \$1,437,225 for the three months ended October 31, 2012 compared to income from operations of \$126,202 in the same period in 2011, a decrease of \$1,563,427 due to primarily to the \$1,478,650 increase in non-cash stock compensation.

Loss on change in fair value of warrant and derivative liabilities of \$3,063,144 for three months ended October 31, 2012 reflects the change in the fair value of the Company's warrant and derivative liabilities from July 31, 2012 to October 31, 2012.

Interest expense and financing cost was \$221,239 for the three months ended October 31, 2012, compared to \$68,047 for the three months ended October 31, 2011. The increase of \$153,192 was due primarily to higher discount amortization.

Net loss was \$4,721,401 for the three months ended October 31, 2012, compared to net income of \$58,204 for the three months ended October 31, 2011. The decrease of \$4,779,605 is primarily related to increase in non-cash stock compensations and change in the fair value of the Company's warrant and derivative liabilities during the quarter.

**Nine Months Ended October 31, 2012 vs. Nine Months Ended October 31, 2011**

Net revenues for the nine months ended October 31, 2012 of \$5,246,448 increased \$1,681,082 or 47.2% over net revenues of \$3,565,366 for the nine months ended October 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 nine months ended October 31, 2012 were \$4,333,289 or 82.6% of net revenues compared to \$2,993,020, or 83.9% of net revenues, for the nine months ended October 31, 2011. The increase of \$1,340,269 is attributable to a \$937,897 increase in physician costs attributable to new physicians hired to support new contracts, \$407,074 increase in non-cash stock compensation, \$120,965 increase related to the acquisition of VMM and consolidation of Verdugo, partially offset by a decrease of \$125,667 in salaries attributable to less time spent by Dr. Hosseinion as a practicing physician. Cost of services as percentage of net revenues excluding the increase in non-cash stock compensation was 74.8% for the nine months ended October 31, 2012.

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 \$2,451,778, or 46.7% of net revenues, for the nine months ended October 31, 2012, an increase of \$1,745,466, compared to general and administrative expenses of \$706,312 for the nine months ended October 31, 2011, or 19.8% of net revenues. The increase is primarily the result of \$1,048,526 increase in non-cash stock compensation due to restricted stock grants to employees, directors and consultants, \$239,927 increase in ACO-related spending, \$166,565 increase in administrative costs due to the consolidation of Verdugo and LALC, \$80,713 in consulting and professional fees to support the continuing growth of our operations, \$87,703 increase in salaries and wages to support bringing the Company's medical billing in-house, \$87,500 increase due to less time spent as a practicing physician by Dr. Hosseinion, \$32,239 increase in bad debt expense, and \$2,293 increase in other expense –net. Excluding the non-cash stock compensation of \$1,048,526, general and administrative expenses were 26.7% of net revenues.

Depreciation and amortization expense was \$14,785 for the nine months ended October 31, 2012 compared to \$9,814 for the same period in 2011.

Loss from operations was \$1,553,404 for the nine months ended October 31, 2012 compared to a loss from operations of \$143,780 for the same period in 2011, an increase of \$1,409,624 primarily to the \$1,455,600 increase in non-cash stock compensation.

Loss on change in fair value of warrant and derivative liabilities of \$5,853,855 for the nine months ended October 31, 2012 reflects the change in the fair value of the Company's warrant and derivative liabilities from January 31, 2012 to October 31, 2012.

Interest expense and financing cost was \$670,181 for the nine months ended October 31, 2012, compared to \$149,974 for the nine months ended October 31, 2011. The increase of \$520,207 was due to primarily to higher discount amortization, and interest expense and financing cost amortization expense related to the Senior Secured Notes.

Net loss was \$8,081,583 for the nine months ended October 31, 2012, compared to a net loss of \$293,559 for the nine months ended October 31, 2011. The increase in the net loss of \$7,788,024 is primarily related to the increase in non-cash stock compensation and the loss on change in the fair value of the Company's warrant and derivative liabilities.

## **Liquidity and Capital Resources**

The Company had \$500,964 in cash and cash equivalents at October 31, 2012. We incurred a loss from operations of \$1,437,225 and \$1,553,404 for the three and nine months ended October 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. 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.

### *Nine months ended October 31, 2012*

For the nine months ended October 31, 2012, cash provided by operations was \$205,948. This was substantially the result of net losses of \$8,081,583, offset by cash provided by working capital of \$97,053 and non-cash expenses of \$8,190,478. Non-cash expenses primarily include depreciation expense, bad debt expense, issuance of shares of common stock for services, 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 provided by working capital due to an increase in trade receivables of \$252,755, an increase in due from affiliates of \$5,771, an increase in financing costs of \$55,000, an increase in prepaid expenses and advances and other assets of \$37,240, and partially offset by a net increase in due to officers of \$6,342 and an increase in accounts payable and accrued liabilities of \$441,477.

For the nine months ended October 31, 2012, cash provided by investing activities was \$655 related to the acquisition of VMM, net of cash acquired in connection in the consolidation of Verdugo, partially offset by \$13,459 in investments in a new billing system and office technology equipment.



For the nine months ended October 31, 2012, cash provided by financing activities was \$130,000 related to \$500,000 in proceeds from the Senior Secured Note, partially offset by \$370,000 distributions to non-controlling interest (LALC). Borrowings were used primarily to fund working capital requirements and technology investments.

*Nine months ended October 31, 2011*

Net cash used in operating activities totaled \$302,232 in the nine months ended October 31, 2011, compared to net cash used in operations of \$159,742 for the comparable nine months ended October 31, 2010. The primary changes in working capital during the nine months ended October 31, 2011 was composed of (i) an increase in accounts receivable of \$180,190 and (ii) a decrease of accounts payable and accrued liabilities. The increase in our accounts receivable was due the acquisition PCCM and uncollected revenue from new contracts. Management uses days of sales outstanding (DSO) to measure the effectiveness of our collections. DSO decreased to 55 as of October 31, 2011 compared to 62 DSO as of January 31, 2011.

Net cash used by financing activities totaled \$4,290 for the nine months ended October 31, 2011, compared to \$211 provided by financing activities for the same period in 2010. During fiscal 2011, the Company completed a \$150,000 private placement of convertible debt with a group of accredited investors. In addition, LALC distributed \$154,290 to its sole shareholder.

During the nine months ended October 31, 2011, the Company advanced \$825 to a non-affiliated Company. The Company invested \$5,136 to acquire furniture and fixtures.

***Debt Agreements***

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

<b>Description of Debt</b>	<b>Lender Name</b>	<b>Interest Rate</b>	<b>October 31, 2012</b>
Senior Secured Note	SpaGus Capital, LLC	8.90	% \$500,000
10% Senior Subordinated Callable Convertible Notes due January 31, 2016	Various	10.00	% 1,250,000
8% Senior Subordinated Convertible Promissory Notes due February 1, 2015	Various	8.00	% 150,000
Total debt			1,900,000
Debt discount			(363,712 )

Net debt

\$1,536,288

***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 October 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 October 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 October 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 October 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 October 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**

4,216,667 shares of Common Stock were issued on various dates during the three months ended October 31, 2012 to certain employees, directors and consultants pursuant to section 4(2) of the Securities Act of 1933.

### **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).
4.3+	Form of Amendment to October 16, 2009 10% Senior Subordinated Convertible Promissory Note, dated October 29, 2012
4.4+	Form Of Investor Warrant, dated October 29, 2012, for the purchase of common stock
4.5+	Form of Amendment to October 16, 2009 Warrant to Purchase Shares of Common Stock, dated October 29, 2012
	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.

**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: December 17, 2012 By: /s/ Warren Hosseinion  
Warren Hosseinion  
Chief Executive Officer and Director

Dated: December 17, 2012 By: /s/ Kyle Francis  
Kyle Francis  
Chief Financial Officer  
(Principal Financial and Accounting Officer)