

Apollo Medical Holdings, Inc.
Form 10-Q
December 20, 2013

**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, 2013**

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
(State or other jurisdiction of
incorporation or organization)

20-8046599
(I.R.S. Employer
Identification Number)

**700 N. Brand Blvd., Suite 220
Glendale, California 91203**
(Address of principal executive offices)

(818) 396-8050
Issuer's telephone number:

(Former Address: 700 N. Brand Blvd. , Suite 450 Glendale, CA 91203)

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

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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 13, 2013, there were 37,977,607 shares of the registrant's common stock, \$0.001 par value per share, issued and outstanding.

APOLLO MEDICAL HOLDINGS, INC.

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

APOLLO MEDICAL HOLDINGS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

| | October 31, 2013 | January 31, 2013 |
|---|---------------------|---------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 1,012,290 | \$ 1,176,727 |
| Accounts receivable, net | 1,475,980 | 1,582,505 |
| Due from affiliates | 4,750 | 5,648 |
| Prepaid expenses | 35,388 | 72,628 |
| Deferred financing costs, current | 115,896 | 34,614 |
| Total current assets | 2,644,304 | 2,872,122 |
| Deferred financing costs, non-current | 225,906 | 218,640 |
| Property and equipment, net | 62,435 | 68,142 |
| Goodwill | 258,200 | 33,200 |
| Other assets | 55,481 | 30,981 |
| TOTAL ASSETS | \$ 3,246,326 | \$ 3,223,085 |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| CURRENT LIABILITIES: | | |
| Accounts payable and accrued liabilities | \$ 968,510 | \$ 950,651 |
| Notes and lines of credit payable | 1,037,743 | 594,765 |
| Stock issuable | 87,750 | 159,334 |
| Total current liabilities | 2,094,003 | 1,704,750 |
| Convertible notes payable, net | 2,198,561 | 1,909,714 |
| Total liabilities | 4,292,564 | 3,614,464 |
| 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, 37,977,607 and 34,843,441 shares issued and outstanding as of October 31, 2013 and January 31, 2013, respectively | 37,978 | 34,844 |
| Prepaid consulting | (341,636) | (616,014) |
| Additional paid-in-capital | 13,942,598 | 11,248,566 |
| Accumulated deficit | (14,418,150) | (11,022,272) |
| Total | (779,210) | (354,876) |
| Non-controlling interest | (267,028) | (36,503) |
| Total stockholders' deficit | (1,046,238) | (391,379) |
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT | \$ 3,246,326 | \$ 3,223,085 |

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, | |
|---|--------------------------------|----------------|-------------------------------|----------------|
| | 2013 | 2012 | 2013 | 2012 |
| Net revenues | \$ 2,605,231 | \$ 1,965,153 | \$ 7,644,843 | \$ 5,246,448 |
| Cost of services | 2,140,615 | 1,798,957 | 6,367,501 | 4,333,289 |
| Gross profit | 464,616 | 166,196 | 1,277,342 | 913,159 |
| Operating expenses | | | | |
| General and administrative | 1,271,575 | 1,598,373 | 4,143,622 | 2,451,778 |
| Depreciation | 6,528 | 5,048 | 19,566 | 14,785 |
| Total operating expenses | 1,278,103 | 1,603,421 | 4,163,188 | 2,466,563 |
| Loss from operations | (813,487) | (1,437,225) | (2,885,846) | (1,553,404) |
| Other income (expense) | | | | |
| Loss on change in fair value of derivative liabilities | - | (3,063,144) | - | (5,853,855) |
| Interest expense | (178,679) | (221,239) | (476,978) | (670,181) |
| Other income | 9,476 | 207 | 8,306 | 657 |
| Total other expenses | (169,203) | (3,284,176) | (468,672) | (6,523,379) |
| Loss before income taxes | (982,690) | (4,721,401) | (3,354,518) | (8,076,783) |
| Provision for income tax | 31,956 | - | 41,360 | 4,800 |
| Net loss | \$ (1,014,646) | \$ (4,721,401) | \$ (3,395,878) | \$ (8,081,583) |
| WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING - BASIC AND DILUTED | 37,977,607 | 33,440,542 | 36,216,544 | 31,673,682 |
| BASIC AND DILUTED NET LOSS PER SHARE | \$ (0.03) | \$ (0.14) | \$ (0.09) | \$ (0.26) |

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, | |
|---|-------------------------------|-------------------|
| | 2013 | 2012 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$ (3,395,878) | \$ (8,081,583) |
| Adjustments to reconcile net loss to net cash (used in) provided by operating activities: | | |
| Bad debt expense | - | 37,493 |
| Depreciation and amortization expense | 19,566 | 14,785 |
| Issuance of shares for services | 725,731 | 1,222,353 |
| Non-cash stock option expense | 1,300,951 | 509,948 |
| Amortization of financing costs | 156,980 | 61,671 |
| Amortization of debt discount | 125,883 | 490,374 |
| Loss on change in fair value of warrant and derivative liabilities | - | 5,853,855 |
| Changes in assets and liabilities: | | |
| Accounts receivable | 106,525 | (252,755) |
| Due to officers | - | 6,342 |
| Due from affiliates | 898 | (5,772) |
| Prepaid expenses and advances | 37,240 | (35,790) |
| Other assets | (24,500) | (1,450) |
| Accounts payable and accrued liabilities | 17,859 | 441,477 |
| Net cash (used in) provided by operating activities | (928,745) | 260,948 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Acquisitions, net | (100,000) | 14,114 |
| Property and equipment acquired | (13,859) | (13,459) |
| Net cash (used in) provided by investing activities | (113,859) | 655 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from notes and line of credit payable | 811,878 | 500,000 |
| Payment of note payable | (500,000) | - |
| Distributions to non-controlling interest shareholder | (240,000) | (370,000) |
| Proceeds from issuance of common stock | 730,000 | - |
| Proceeds from issuance of convertible notes payable | 220,000 | - |
| Debt issuance costs | (143,711) | (55,000) |
| Net cash provided by financing activities | 878,167 | 75,000 |
| NET (DECREASE) INCREASE IN CASH & CASH EQUIVALENTS | (164,437) | 336,603 |
| CASH & CASH EQUIVALENTS, BEGINNING OF PERIOD | 1,176,727 | 164,361 |
| CASH & CASH EQUIVALENTS, END OF PERIOD | \$ 1,012,290 | \$ 500,964 |
| SUPPLEMENTARY DISCLOSURES OF CASH FLOW INFORMATION | | |
| Interest paid | \$ 161,235 | \$ 15,000 |
| Income Taxes paid | \$ 41,360 | \$ 9,040 |

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Non-Cash Financing Activities

| | | |
|--|------------|--------------|
| Shares issuable and issued for deferred financing costs | \$ 101,817 | \$ 144,485 |
| Warrants issued in connection with convertible note issuance | \$ 50,936 | \$ 200,452 |
| Warrants and derivative reclassified from liabilities to stockholders' deficit | \$ - | \$ 6,626,881 |
| Shares issued for prepaid director services | \$ - | \$ 691,310 |
| Note payable issued in connection with acquisition | \$ 125,000 | \$ - |

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. and its affiliated physician groups are a physician-centric, integrated healthcare delivery system serving Medicare, Commercial and Medi-Cal beneficiaries in California. As of October 31, 2013, ApolloMed's physician network consisted of hospitalists, primary care physicians and specialist physicians primarily through our owned and affiliated physician groups. ApolloMed operates as a medical management holding company 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 ACO, 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 Eli Hendel, M.D., Inc. ("Hendel"). 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 corporations ("PPC") under long-term management service agreements. ApolloMedACO participates in the Medicare Shared Savings Program ("MSSP"), the goal of which is to improve the quality of patient care and outcomes through more efficient and coordinated approach among providers.

Consolidation of Maverick Medical Group, Inc. and ApolloMed Care Clinic

On February 1, 2013 AMM entered into a management services agreement with Maverick Medical Group, Inc. ("MMG"), a newly formed independent practice association ("IPA"). Prior to February 1, 2013 MMG had no business operations. Under the MMG management services agreement ("MSA"), AMM has exclusive authority and will perform all non-medical management and administrative services related to the ongoing business operations of MMG. In addition, AMM has agreed to provide working capital to MMG to fund its initial operations. The MSA has an initial term of 20 years and is not terminable by either party except in the case of gross negligence, fraud, or other illegal acts by Apollo, or bankruptcy of Apollo. AMM is the primary beneficiary of MMG under the MSA, and consolidated the financial statements of MMG from the date of execution of the management agreement.

On July 31, 2013 AMM entered into a management services agreement with ApolloMed Care Clinic ("ACC"), a newly formed physician practice corporation. Prior to July 31, 2013 ACC had no business operations. Under the ACC management services agreement ("ACC MSA"), AMM has exclusive authority and will perform all non-medical management and administrative services related to the ongoing business operations of MMG. In addition, AMM has agreed to provide working capital to ACC to fund its initial operations. The ACC MSA has an initial term of 20 years and is not terminable by either party except in the case of gross negligence, fraud, or other illegal acts by Apollo, or bankruptcy of Apollo. AMM is the primary beneficiary of ACC under the MSA, and consolidated the financial statements of ACC from the date of execution of the management agreement.

Going Concern

The Company's financial statements are prepared using United States generally accepted accounting principles ("GAAP") applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. However, the Company incurred the following net operating loss and cash from operating activities for the nine months ended October 31, 2013:

| | |
|-----------------------------------|-------------|
| Net operating loss | \$2,885,846 |
| Cash used in operating activities | \$928,745 |

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As of October 31, 2013 the Company's accumulated and stockholders' deficit was as follows:

| | |
|-----------------------|--------------|
| Accumulated deficit | \$14,418,150 |
| Stockholders' deficit | \$1,046,238 |

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, including the proceeds from the issuance of debt and equity securities which have provided funds for near-term operations and growth. In October 2013 the Company entered into a credit agreement (as amended on December 20, 2013) with a financing entity that provides for the Company to borrow up to \$4,000,000 (see Note 5). The Company intends to use the proceeds from the line of credit for retirement of other indebtedness, working capital and general corporate purposes. The current operating plan indicates that losses from operations may be incurred for all of fiscal 2014. 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. On January 31, 2013 the Company raised through a private placement offering \$880,000 of par value 9% Senior Subordinated Callable Convertible Promissory Notes maturing February 15, 2016 (the "9% Notes") and through July 31, 2013 had raised an aggregate of \$1.1 million in gross proceeds (see Note 5). In March, 2013, the Company initiated a private placement of up to 7,500,000 shares of its common stock at a price per share of \$0.40 (the "Equity Offering"), and has raised \$730,000 during the nine months ended October 31, 2013 (see Note 8). The Company intends to use the net proceeds after issue costs from the 9% Notes and the Equity Offering for working capital and general corporate purposes.

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.

2. Summary of Significant Accounting Policies

Accounting Principles

These condensed consolidated statements reflect all adjustments, consisting of normal recurring adjustments, which, in management's opinion, are necessary, and should be read in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2012 as filed with the Securities and Exchange Commission ("SEC") on May 1, 2013.

Principles of Consolidation

Our consolidated financial statements include the accounts of Apollo Medical Holdings, Inc. and its wholly owned subsidiaries AMM, ApolloMed ACO, PCCM, and VMM, its controlling interest in Aligned Healthcare, Inc. ("AHI"), and PPC's managed under long-term management service agreements including AMH, MMG, ACC, LALC and Hendel. 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.

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 for 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 a specific facility. Contract revenue for the supplemental billing in such cases is recognized based on the terms of each individual contract. Such contract terms generally either provides for a fixed monthly dollar amount or a variable amount based upon measurable monthly activity, such as hours staffed, patient visits or collections per visit compared to a minimum activity threshold. Such supplemental revenues based on variable arrangements are usually contractually fixed on a monthly, quarterly or annual calculation basis considering the variable factors negotiated in each such arrangement. Such supplemental revenues are recognized as revenue in the period when such amounts are determined to be fixed and therefore contractually obligated as payable by the customer

under the terms of the respective agreement. Additionally, 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 patients 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.

The Company through its subsidiary, ApolloMed ACO, participates in the Medicare Shared Savings Program ("MSSP") sponsored by the Centers for Medicare & Medicaid Services ("CMS"). The MSSP allows ACO participants to share in cost savings it generates in connection with rendering medical services to Medicare patients. Payments to ACO participants, if any, will be calculated by CMS on cost savings generated by the ACO participant based on a trailing 24 month medical service history. The MSSP is a newly formed program with no history of payments to ACO participants. The Company considers revenue, if any, under the MSSP, as contingent upon the realization of program savings as determined by CMS, and are not considered earned and therefore are not recognized as revenue until cash payments from CMS are received. For the three months and nine months ended October 31, 2013 and 2012, the Company recorded no revenue related to the MSSP.

Concentrations

The Company had two major customers during the three months ended October 31, 2013 which contributed 15.4% and 15.0% of net revenues, respectively, and had three major customers during the three months ended October 31, 2012 which contributed 20.8%, 6.3% and 4.2% of net revenues, respectively.

The Company had two major customers during the nine months ended October 31, 2013 which contributed 16.3% and 15.5% of net revenues, respectively, and had three major customers during the nine months ended October 31, 2012 which contributed 24.0%, 7.7% and 4.9% of revenue, respectively.

The Company had two major customers that contributed 16.2% and 9.7% of accounts receivable, respectively, as of October 31, 2013.

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 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.

Non-controlling Interest

The non-controlling interest recorded in our consolidated financial statements represents the pre-acquisition equity of those PPC's in which we have determined that we have a controlling financial interest and for which 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.

Activity within non-controlling interest for the nine months ended October 31, 2013 consisted of the following:

| | |
|---|-------------|
| Balance as of January 31, 2013 | \$(36,503) |
| Stock-based compensation | 9,475 |
| Distributions to non-controlling interest shareholder | (240,000) |
| Balance as of October 31, 2013 | \$(267,028) |

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.

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

| | Three months ended October 31, | | Nine months ended October 31, | |
|--|--------------------------------|---------|-------------------------------|---------|
| | 2013 | 2012 | 2013 | 2012 |
| Incremental shares assumed issued on exercise of in the money options | 4,373,687 | - | 4,547,125 | - |
| Incremental shares assumed issued on exercise of in the money warrants | 1,428,067 | 798,743 | 1,535,402 | 377,141 |
| | 5,801,754 | 798,743 | 6,082,526 | 377,141 |

Use of Estimates

The preparation of financial statements in conformity with United States GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Reclassifications

Certain reclassifications have been made to the accompanying fiscal year 2013 consolidated financial statements to conform them to the fiscal year 2014 presentation.

3. Acquisition

On September 1, 2013 ACC acquired certain assets, excluding working capital, of a medical clinic in Los Angeles, California. We accounted for the acquisition as a business combination using the acquisition method of accounting which requires, among other things, that assets acquired and liabilities assumed be recognized at their fair values as of the purchase date and be recorded on the balance sheet. The process for estimating the fair values of identifiable intangible assets involves the use of significant estimates and assumptions, including estimating future cash flows and developing appropriate discount rates. Transaction costs are not included as a component of consideration transferred and were expensed as incurred. The related transaction costs expensed for the three months and nine months ended October 31, 2013 were approximately \$10,000.

The acquisition-date fair value of the consideration transferred consisted of the following items:

| | |
|-------------------------------|------------|
| Cash consideration | \$ 100,000 |
| Promissory note due to seller | 125,000 |
| Total purchase consideration | \$225,000 |

Fair Value Estimate of Asset Acquired and Liability Assumed

The total purchase consideration is allocated to the acquisition of the net tangible and intangible assets based on their estimated fair values as of the closing date. The allocation of the total purchase price to the net assets acquired is as follows:

| | |
|-------------------------------------|------------|
| Goodwill | \$ 225,000 |
| Total fair value of assets acquired | 225,000 |
| Promissory note, net | 125,000 |
| Net assets acquired | \$ 100,000 |

Property and equipment fair value was determined using their historical cost adjusted for usage and management estimates.

The promissory note issued will be paid in installments of \$15,000 per month for ten months commencing 90 days from the closing date under a non-interest bearing promissory note to be secured by the assets of the clinic. The Company determined the fair value of the note using an interest rate of 26.3% per annum to discount future cash flows, which is based on the cost of recent debt issuances of Apollo (Note 5).

Goodwill is calculated as the excess of the consideration transferred over the net assets recognized and represents the future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. Specifically, the goodwill recorded as part of the acquisition includes benefits that the Company believes will result from gaining additional expertise and intellectual property in the clinical care area and expand the reach of its Maverick Medical Group IPA. Goodwill is not amortized and is not deductible for tax purposes.

We do not consider this acquisition to be a material business combination and, therefore, have not disclosed the pro forma results of operations as required for material business combinations.

The recorded purchase price amounts are preliminary and subject to change as we are awaiting additional information related to acquired intangible assets and note discount. The effects of final adjustments, if any, on the purchase price allocation are not expected to be material.

4. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consisted of the following:

| | October 31, 2013 | January 31, 2013 |
|---------------------------|---------------------|---------------------|
| Accounts payable | \$ 452,579 | \$ 394,915 |
| Accrued compensation | 399,244 | 500,023 |
| Income taxes payable | 287 | 1,087 |
| Accrued interest | 55,922 | 9,310 |
| Accrued professional fees | 60,478 | 45,316 |
| | \$ 968,510 | \$ 950,651 |

5. Notes and Lines of Credit Payable

Senior Secured Note

The terms of the amended \$500,000 Senior Secured Note to SpaGus Apollo, LLC 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. On April 15, 2013 the Company was obligated to issue an additional 100,000 restricted shares of the Company's common stock to SpaGus required under the terms of the amended Note, which had a fair value of \$45,000 at the obligation date. The Company accounted for this additional payment as a modification, which was amortized to interest expense over the remaining term of the amended Note using the effective interest method. The amended Note matured and was repaid, including accrued unpaid interest, on October 16, 2013.

Promissory Note

In connection with the September 1, 2013 acquisition of the Los Angeles, CA medical clinic (Note 3), ACC issued a non-interest bearing promissory note to the seller, which is due in ten installments of \$15,000 per month commencing December 1, 2013. ACC recorded the note at its fair value of \$125,000 using an interest rate of 26.3% to discount future cash flows, which is based on the cost of recent debt issuances of Apollo. The note is secured by substantially all assets of the clinic.

Lines of credit payable

Secured revolving credit facility

On October 15, 2013, the Company entered into a \$2.0 million secured revolving credit facility (the "Credit Agreement") with NNA of Nevada, Inc., and ("the Lender" or "NNA"). The Company and its subsidiaries are guarantors of the Company's obligations under the Credit Agreement. Loans drawn under the Credit Agreement are secured by all of the assets of the Company and its subsidiaries, including a security interest in the deposit accounts of the Company and its subsidiaries and a pledge of the shares in the Company's subsidiaries. Amounts outstanding under the Credit Agreement accrue interest at a rate equal to the sum of (i) three months LIBOR and (ii) six percent (6.24% at October 31, 2013). Interest is payable on the last business day of each successive month, in arrears, commencing October 31, 2013, and at each month-end thereafter. The Credit Agreement requires the Company to pay the Lender a facility fee, on the last business day of each month, at a per annum rate of 1.0% of the average daily unused portion of the revolving credit commitment under the Credit Agreement. The Credit Agreement matures June 30, 2014. The Company incurred direct costs related to the Credit Agreement aggregating \$119,500 which were accounted for as deferred financing costs and will be amortized using the straight line method to interest expense over the term thereof. As of October 31, 2013 \$811,878 was outstanding under the Credit Agreement.

On December 20, 2013 the Company entered into the First Amendment to the Credit Agreement (the “Amended Credit Agreement”), which increased the revolving credit facility from \$2 million to \$4 million. The proceeds of the Amended Credit Agreement were used by the Company to repay the \$500,000 senior secured note (the “Senior Secured Note”) to SpaGus Apollo, LLC , and will be used to pay or repay certain of the Company’s 10% Notes, to refinance certain other indebtedness of the Company, and for working capital and for general corporate purposes. The Amended Credit Agreement contains the following financial covenants as follows:

The Credit Agreement contains the following financial covenants as follows:

Consolidated EBIT: The Company will not permit Consolidated EBIT as of the last day of each fiscal quarter shown below, for the fiscal quarter then ended, to be a greater negative amount than the amount set forth below:

| Period | Minimum Consolidated EBIT(loss) |
|---|---------------------------------|
| 3rd fiscal quarter ended October 2013 | \$ (900,000) |
| 4 th fiscal quarter ended January 2014 | \$ (1,227,111) |
| 1 st fiscal quarter ended April 2014 | \$ (1,696,958) |

Consolidated EBIT is defined, for any period, as the aggregate of (i) Consolidated Net Income of the Company plus (ii) the sum of interest expense and income tax expense, and minus (iii) interest income, all to the extent taken into account in the calculation of Consolidated Net Income. Consolidated Net Income is defined, for any period, as the net income (or loss) of the Company and its Subsidiaries, as determined on consolidated basis in accordance with GAAP, but excluding extraordinary gains and losses and any other non-operating gains and losses.

Working Capital Ratio: Permit the Working Capital Ratio to be less than 0.80: 1.00 at any time.

Working Capital Ratio is defined, as of the measurement date, the ratio of (i) the sum of (A) the current assets of the Company and its subsidiaries as determined on a consolidated basis in accordance with GAAP, and (B) the unused portion of the revolving credit commitment to (ii) the current liabilities of the Company and its subsidiaries including without the aggregate amount of the Credit Agreement borrowings.

In addition, the Credit Agreement includes certain negative covenants that, subject to exceptions, limit our ability to, among other things incur additional indebtedness, engage in future mergers, consolidations, liquidations and dissolutions, sell assets, pay dividends and distributions on or repurchase capital stock, and enter into or amend other material agreements. The Credit Agreement also includes certain customary representations and warranties, affirmative covenants and events of default, which are set forth in more detail in the Credit Agreement.

The Company is in compliance with its financial covenants as of October 31, 2013 under the Amended Credit Agreement.

Unsecured revolving line of credit

Hendel has a \$100,000 revolving line of credit with a financial institution of which \$94,765 was outstanding at October 31, 2013. Borrowings under the line of credit bear interest at the prime rate (as defined) plus 4.50% (7.75% per annum at October 31, 2013), interest only is payable monthly, and matures June 5, 2014. The line of credit is unsecured.

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

| | Three months ended October 31, | | Nine months ended October 31, | |
|--|--------------------------------|-----------|-------------------------------|-----------|
| | 2013 | 2012 | 2013 | 2012 |
| Interest expense | \$ 16,810 | \$ 2,755 | \$ 36,901 | \$ 15,386 |
| Amortization of loan fees and discount | 49,738 | 11,401 | 89,327 | 33,546 |
| | \$ 66,548 | \$ 14,156 | \$ 126,229 | \$ 48,932 |

6. Convertible Notes Payable

| | October 31, 2013 | January 31, 2013 |
|---|---------------------|---------------------|
| 10% Senior Subordinated Convertible Notes due January 31, 2016, net of debt discount of \$133,277 (October 31, 2013) and \$183,389 (January 31, 2013) | \$ 1,116,724 | \$ 1,066,611 |
| 9% Senior Subordinated Convertible Notes due February 15, 2016, net of debt discount of \$168,162 (October 31, 2013) and \$186,897 (January 31, 2013) | 931,837 | 693,103 |
| 8% Senior Subordinated Convertible Notes due February 1, 2015 | 150,000 | 150,000 |
| Total Convertible Notes | 2,198,561 | 1,909,714 |
| Less: Current Portion | - | - |
| Long Term Portion | \$ 2,198,561 | \$ 1,909,714 |

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

The \$1,250,000 10% Senior Subordinated Callable Convertible Notes (the “10% Notes”) bear interest at a rate of 10% annually, payable semi-annually on January 31 and July 31. The 10% Notes are subordinated, have a fixed conversion price of \$0.11485 per share, and according to the original offering memorandum for the 10% Notes are convertible at any time prior to maturity, January 31, 2016.

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

The \$150,000 8% Senior Subordinated Promissory Convertible 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 are subordinated. The 8% Notes are convertible any time prior to February 1, 2015 at an initial conversion price of \$0.25 per share of the Company’s common stock. 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 up to, but excluding, the redemption rate. The Company can prepay the notes at any time.

9% Senior Subordinated Callable Convertible Promissory Notes due February 15, 2016

The 9% Notes bear interest at a rate of 9% per annum, payable semi-annually on August 15 and February 15, and mature February 15, 2016, and are subordinated. The principal of the 9% Notes plus any accrued yet unpaid interest is convertible at any time by the holder at a conversion price of \$0.40 per share of Common Stock, subject to adjustment for stock splits, stock dividends and reverse stock splits. After 60 days prior notice, the Note is callable in full or in part by the Company at any time after January 31, 2015. If the Average Daily Value of Trades (“ADVT”) during the prior 90 days as reported by Bloomberg is greater than \$100,000, the Note is callable at a price of 105% of the Note’s par value, and if the ADVT is less than \$100,000, the Note is callable at a price of 110% of the Note’s par value.

During the nine months ended October 31, 2013 the Company issued additional units of the 9% Notes for aggregate proceeds of \$220,000, respectively, and warrants to purchase the Company’s common stock aggregating 165,000 shares. In addition, the Company issued 44,000 warrants to the placement agent associated with these additional proceeds.

The fair value of the warrants issued during the nine months ended October 31, 2013 was \$50,937 based on the Company’s closing stock price at the transaction dates and weighted-average inputs to the Black-Scholes option pricing model as follows:

| | | |
|--------------------------|--------|---|
| Exercise Price | \$0.42 | |
| Expected Term (in years) | 5.00 | |
| Volatility | 48.0 | % |
| Dividend rate | 0.0 | % |
| Interest rate | 0.7 | % |

This amount will be amortized to interest expense using the effective interest method over the term of the 9% Notes.

Interest expense associated with the convertible notes payable consisted of the following:

| | Three months ended October 31, | | Nine months ended October 31, | |
|---------------------------|--------------------------------|-----------|-------------------------------|------------|
| | 2013 | 2012 | 2013 | 2012 |
| Interest expense | \$ 59,030 | \$ 34,250 | \$ 170,830 | \$ 102,750 |
| Amortization of loan fees | 17,711 | 9,375 | 73,752 | 28,125 |

| | | | | |
|-------------------------------|------------|------------|------------|------------|
| Amortization of debt discount | 35,390 | 163,458 | 106,167 | 490,374 |
| | \$ 112,131 | \$ 207,083 | \$ 350,749 | \$ 621,249 |

7. 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.

8. Stockholders' Deficit

Common Stock Placement

In March 2013, the Company initiated a private placement of up to 7,500,000 shares of its common stock at a price per share of \$0.40 (the "Equity Offering"), and during the three months ended October 31, 2013 the Company issued 750,000 shares of common stock for proceeds of \$300,000 and during the nine months ended October 31, 2013 the Company issued 1,825,000 shares of common stock for proceeds of \$730,000.

Equity Incentive Plans

The Company's amended 2010 Equity Incentive Plan (the "2010 Plan") allowed the Board to grant up to 12,000,000 shares of the Company's common stock, and provided for awards including incentive stock options, non-qualified options, restricted common stock, and stock appreciation rights. As of October 31, 2013, there were no shares available for future grants under the 2010 Plan, and no further shares will be issued under the 2010 Plan.

On April 29, 2013 the Company's Board of Directors approved the Company's 2013 Equity Incentive Plan (the "2013 Plan"), pursuant to which 5,000,000 shares of the Company's common stock will be reserved for issuance thereunder. The Company received approval of the 2013 Plan from the Company's stockholders on May 19, 2013. The Company issues new shares to satisfy stock option and warrant exercises under the 2013 Plan. As of October 31, 2013 there were 2,410,000 shares available for future grants under the 2013 Plan.

Stock options and restricted common stock 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 share, whichever can be more clearly determined. The Company recognizes this expense over the period in which the services are provided.

Share Issuances

On April 30, 2013, the Company's Board of Directors authorized the issuance of 300,000 shares of common stock to Kanehoe Advisors for consulting services, 300,000 shares of common stock to Gary Augusta for consulting services, and 100,000 shares of common stock for other professional services during the three months ended April 30, 2013. The 700,000 shares authorized had an aggregate cost of \$315,000 and were recorded as stock-based compensation expense based on the fair values of the shares at the commitment dates. The Company issued these shares during the three months ended October 31, 2013.

During the three months ended July 31, 2013 the Company accrued 180,000 shares of common stock for professional services with an aggregate cost of \$97,200 based on the fair value of the shares at their respective commitment dates. The Company issued these shares during the three months ended October 31, 2013.

During the three months ended October 31, 2013, the Company accrued 162,500 shares of common stock for professional services with an aggregate cost of \$87,750 based on the fair value of the shares at their respective commitment dates. These shares were not issued as of, and were recorded as a liability at, October 31, 2013.

Option Issuances

During the three months ended April 30, 2013 the Company's Board of Directors authorized the issuance of options for 150,000 shares of common stock with an exercise price of \$0.21 per share to Mark Meyers pursuant to Mr. Meyers' consulting agreement. The options vest immediately and expire on the tenth anniversary of issuance. The fair value of the 150,000 stock options of \$55,774 was determined under the Black-Scholes option pricing model. The calculation was based on the Company's closing stock price on the date of grant and the following weighted-average inputs:

| | | |
|-----------------------|------|---|
| Expected term (years) | 3.0 | |
| Volatility | 17.4 | % |
| Dividends | 0.0 | % |
| Interest rate | 0.82 | % |

During the three months ended April 30, 2013, the Company issued awards of options for 382,000 shares of the Company's common stock. The options generally vest on a monthly basis over a 36 month period, and expire on the tenth anniversary of issuance. The aggregate fair value of the stock options of \$94,162 was determined using the Black-Scholes option pricing model. The calculation was based on the Company's closing stock price on the date of grant and the following weighted-average inputs:

The weighted-average inputs for the three months ended April 30, 2013 were as follows:

| | |
|----------------|--------|
| Exercise Price | \$0.41 |
|----------------|--------|

| | | |
|--------------------------|------|---|
| Expected Term (in years) | 4.59 | |
| Volatility | 26.0 | % |
| Dividend rate | 0.0 | % |
| Interest rate | 0.5 | % |

During the three months ended July 31, 2013 the Company's Board of Directors authorized the issuance of options for 150,000 shares of common stock with an exercise price of \$0.21 per share to Mark Meyers pursuant to Mr. Meyers' consulting agreement. The options vest immediately and expire on the tenth anniversary of issuance. The fair value of the 150,000 stock options of \$65,678 was determined under the Black-Scholes option pricing model. The calculation was based on the Company's closing stock price on the date of grant and the following weighted-average inputs:

| | | |
|-----------------------|------|---|
| Expected term (years) | 3.0 | |
| Volatility | 29.7 | % |
| Dividends | 0.0 | % |
| Interest rate | 0.5 | % |

On May 21, 2013, the Company's Board of Directors authorized the issuance of 400,000 common stock options to David Schmidt pursuant to the Director's Agreement between Mr. Schmidt and the Company in connection with his appointment to the Company's Board of Directors. The options vest evenly over 36 months. The fair value of the 400,000 stock options of \$69,464 was determined under the Black-Scholes option pricing model using the Company's closing stock price on the date of grant and the following inputs: exercise price \$0.50, expected term (years) 3.0, volatility 29.7%, interest rate 0.64%, and no dividends.

During the three months ended July 31, 2013, the Company's Board of Directors authorized the issuance or modification of common stock option awards for 1,733,000 shares to certain employees. The options generally vested upon grant. The aggregate fair value of the options was \$678,000, determined using the Black-Scholes option pricing model. The calculation was based on the Company's closing stock price on the date of grant and the following weighted-average inputs:

The weighted-average inputs were as follows:

| | | |
|--------------------------|---------|---|
| Exercise Price | \$0.004 | |
| Expected Term (in years) | 3.00 | |
| Volatility | 29.7 | % |
| Dividend rate | 0.0 | % |
| Interest rate | 0.6 | % |

During the three months ended October 31, 2013, the Company's Board of Directors authorized the issuance of common stock option awards for 120,000 shares to an employee and consultant. The options vest on various dates through July 31, 2014. The aggregate fair value of the options was \$34,200 determined using the Black-Scholes option pricing model. The calculation was based on the estimated fair value of the Company's stock price on the date of grant and the following weighted-average inputs:

| | | |
|--------------------------|--------|---|
| Exercise Price | \$0.47 | |
| Expected Term (in years) | 6.00 | |
| Volatility | 67.2 | % |
| Dividend rate | 0.0 | % |
| Interest rate | 1.4 | % |

Stock option activity for the nine months ended October 31, 2013 is summarized below:

| Shares | Weighted Average Per Share Exercise | Weighted Average Remaining Life | Aggregate Intrinsic Value |
|--------|--|--|---------------------------------|
|--------|--|--|---------------------------------|

| | | Price | (Years) | |
|---|-------------|---------|---------|------|
| Balance, January 31, 2013 | 5,300,000 | \$ 0.18 | 9.1 | \$ - |
| Granted | 2,935,000 | 0.18 | 9.6 | - |
| Cancelled | (1,000,000) | 0.21 | 8.9 | - |
| Exercised | - | - | - | - |
| Expired | - | - | - | - |
| Forfeited | - | - | - | - |
| Balance, October 31, 2013 | 7,235,000 | \$ 0.17 | 9.3 | \$ - |
| Vested and exercisable - October 31, 2013 | 5,581,474 | \$ 0.17 | 9.3 | \$ - |

ApolloMed ACO 2012 Equity Incentive Plan

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

| | Shares | Weighted Average Remaining Life (Years) | Aggregate Intrinsic Value | Weighted Average Fair Value |
|---------------------------|-----------|---|---------------------------------|-----------------------------------|
| Balance, January 31, 2013 | 3,690,000 | 1.9 | \$ 36,900 | \$0.01 |
| Granted | 62,000 | 1.7 | 620 | 0.01 |
| Released | - | | | |
| Balance, October 31, 2013 | 3,752,000 | 1.3 | \$ 37,520 | \$0.01 |

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

As of October 31, 2013, total unrecognized compensation costs related to non-vested stock-based compensation arrangements granted under our 2010 and 2013 Equity Plans, and the ACO Plan's and the weighted-average period of years expected to recognize those costs are as follows:

| | | Weighted Average Remaining Life (Years) |
|---------------------------|------------|---|
| Common stock options | \$ 134,122 | 0.9 |
| ACO Plan restricted stock | \$ 15,736 | 1.3 |

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

| | Three months ended October 31, | | Nine months ended October 31, | |
|-----------------------------------|--------------------------------|--------------|-------------------------------|--------------|
| | 2013 | 2012 | 2013 | 2012 |
| Stock-based compensation expense: | | | | |
| Cost of services | \$ 73,767 | \$ 440,075 | \$ 550,925 | \$ 452,584 |
| General and administrative | 284,203 | 1,107,162 | 1,475,757 | 1,279,717 |
| | \$ 357,969 | \$ 1,547,237 | \$ 2,026,682 | \$ 1,732,301 |

Warrants

Warrants consisted of the following as of and for the nine months ended October 31, 2013:

| | Aggregate Intrinsic Value | Number of warrants |
|---------------------------------|---------------------------------|-----------------------|
| Outstanding at January 31, 2013 | \$ - | 2,936,000 |
| Granted | - | 209,000 |
| Exercised | - | - |
| Cancelled | - | - |
| Outstanding at October 31, 2013 | \$ - | 3,145,000 |

| Exercise Price | Warrants outstanding | Weighted average remaining contractual life | Warrants exercisable | Weighted average exercise price | Expiration |
|----------------|-------------------------|--|-------------------------|---------------------------------------|------------|
| \$ 0.11485 | 1,250,000 | 2.75 | 1,250,000 | \$ 0.1149 | 7/31/2016 |
| \$ 0.11485 | 250,000 | 2.75 | 250,000 | \$ 0.1149 | 7/31/2016 |
| \$ 0.45000 | 500,000 | 2.75 | 500,000 | \$ 0.4500 | 7/31/2016 |
| \$ 0.50000 | 100,000 | 3.99 | 100,000 | \$ 0.5000 | 10/28/2017 |
| \$ 0.45000 | 825,000 | 4.25 | 825,000 | \$ 0.4500 | 1/30/2018 |
| \$ 0.40000 | 220,000 | 4.25 | 220,000 | \$ 0.4000 | 1/31/2018 |
| | 3,145,000 | 3.29 | 3,145,000 | \$ 0.2882 | |

Authorized stock

At October 31, 2013 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 9% Senior Subordinated Callable Notes, the exercise of all outstanding warrants exercisable into shares of common stock, and shares granted and available for grant under the Company's 2013 Plan. The amount of shares of common stock reserved for these purposes is as follows at October 31, 2013:

| | |
|--|------------|
| Common stock issued and outstanding | 37,977,607 |
| Conversion of 10% Notes | 10,883,761 |
| Conversion of 8% Notes | 600,000 |
| Conversion of 9% Notes | 2,750,000 |
| Warrants outstanding | 3,145,000 |
| Stock options outstanding | 7,235,000 |
| Remaining shares issuable under 2013 Equity Incentive Plan | 2,410,000 |
| | 65,001,368 |

9. Commitments and Contingencies*Regulatory Matters*

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. We

believe that we are in compliance with all applicable laws and regulations.

Legal

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 hospitalists. 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.

Liability Insurance

We believe that our insurance coverage is appropriate based upon our claims experience and the nature and risks of our business. In addition to the known incidents that have resulted in the assertion of claims, we cannot be certain that our insurance coverage will be adequate to cover liabilities arising out of claims asserted against us, our affiliated professional organizations or our affiliated hospitalists in the future where the outcomes of such claims are unfavorable. We believe that the ultimate resolution of all pending claims, including liabilities in excess of our insurance coverage, will not have a material adverse effect on our financial position, results of operations or cash flows; however, there can be no assurance that future claims will not have such a material adverse effect on our business.

Although we currently maintain liability insurance policies on a claims-made basis, which are intended to cover malpractice liability and certain other claims, the coverage must be renewed annually, and may not continue to be available to us in future years at acceptable costs, and on favorable terms.

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, 2013, filed with the Securities and Exchange Commission (SEC) on May 1, 2013.

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

Apollo Medical Holdings, Inc. and its affiliated physician groups ("ApolloMed", "we", "our" or the "Company") are a physician centric, integrated healthcare delivery system serving Medicare, Commercial and Medi-Cal beneficiaries in California. ApolloMed's businesses operate primarily under risk and value-based contracts with health plans, Independent Physician Associations ("IPAs"), Hospitals and the Centers for Medicare and Medicaid Services' ("CMS") Medicare Shared Savings Program. We believe each major constituent of the healthcare delivery system, including patients, families, primary care physicians, specialists, acute care hospitals, alternative sites of inpatient care, physician groups and health plans can benefit from better coordinated care. We are positioned to assist and provide "Best in Class" care coordination services to each of these constituents and assist in finding solutions to many of the challenges associated with patient care in the inpatient and outpatient settings.

ApolloMed was incorporated in California in 2001, beginning operations at Glendale Memorial Hospital as a hospital based physician group. The Company was organized around the admission and care of patients at inpatient facilities such as a hospital. We have successfully grown our inpatient strategy in a competitive market by providing high quality care for our patients and innovative solutions for our hospital and managed care clients by focusing on improving the inefficiencies associated with inpatient care, reducing readmissions and improving outcomes through better care coordination. Currently, we provide inpatient services at over 28 hospitals and long-term acute care facilities in Los Angeles and Central California where we have contracted with over 50 hospitals, IPAs and health plans to provide a range of inpatient services including hospitalist, intensivist, physician advisor and consulting services.

In 2012, the Company formed an Accountable Care Organization (“ACO”), ApolloMed ACO, to participate in CMS’ Medicare Shared Savings Program. The ACO program is designed to work together with payors by aligning provider incentives. This alignment of provider incentives is intended to improve quality and medical outcomes for patients across the ACO and achieve cost savings for Medicare. We believe ApolloMed ACO is unique in that it leverages our best in class inpatient and outpatient capabilities.

Recent Developments

On February 1, 2013 Apollo Medical Management (“AMM”) entered into a management services agreement with Maverick Medical Group, Inc. (“MMG”), a newly formed independent practice association (“IPA”). MMG will serve Medicare, Dual Eligible, Commercial and Medi-Cal patients residing in the greater Los Angeles area. MMG will operate under full and professional risk contracts with health plans through its network of over 150 Primary Care Physicians and Specialist physicians. Prior to February 1, 2013 MMG had no business operations. On July 31, 2013 AMM entered into a management services agreement with Apollomed Care Clinic (“ACC”), a newly formed PPC. ACC will serve Medicare, Dual Eligible, Commercial and Medi-Cal patients residing in the greater Los Angeles area. Prior to July 31, 2013 ACC had no business operations.

Under the management services agreements (“MSA’s”) with MMG and ACC, AMM has exclusive authority and will perform all non-medical management and administrative services related to their respective ongoing business operations. In addition, AMM has agreed to provide working capital to MMG and ACC to fund their initial operations. The MSA’s have an initial term of 20 years and are not terminable by either party except in the case of gross negligence, fraud, or other illegal acts by Apollo, or bankruptcy of Apollo. AMM is the primary beneficiary of MMG and ACC under the respective MSA, and consolidates the financial statements of MMG and ACC from the date of execution of the management agreement.

On September 1, 2013 ACC acquired certain assets, excluding working capital, of a medical clinic in Los Angeles, California for total consideration of \$225,000 consisting of \$100,000 in cash and a promissory note. The Company believes that the acquisition will result in the Company gaining additional expertise and intellectual property in the clinical care area and expand the reach of its Maverick Medical Group IPA.

ApolloMed ACO and ACC are newly formed entities with limited revenues, and will require working capital to fund their operations, which may be substantial. There can be no assurance that the Company will have adequate capital to fund the operations of MMG, ApolloMed ACO, and ACC, or that they will generate sufficient cash flow in the future to fund their operations.

In October 2013 the Company entered into a credit agreement (as amended on December 20, 2013) with a financing entity that provides for the Company to borrow up to \$4,000,000 (see Note 5). The Company intends to use the proceeds from the line of credit for retirement of other indebtedness, working capital and general corporate purposes.

Results of Operations

Three months ended October 31, 2013 compared to three months ended October 31, 2012

The Company’s results of operations were as follows for the three months ended October 31:

| | 2013 | 2012 | Change | Percentage change | |
|----------------------------|--------------|--------------|------------|-------------------|---|
| Net Revenues | \$ 2,605,231 | \$ 1,965,153 | \$ 640,078 | 32.6 | % |
| Cost of Services | 2,140,615 | 1,798,957 | 341,658 | 19.0 | % |
| Gross Profit | 464,616 | 166,196 | 298,420 | 179.6 | % |
| Operating expenses: | | | | | |
| General and administrative | 1,271,575 | 1,598,373 | (326,798) | -20.4 | % |
| Depreciation | 6,528 | 5,048 | 1,480 | 29.3 | % |
| Total operating expenses | 1,278,103 | 1,603,421 | (325,318) | -20.3 | % |

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| | | | | | | | | |
|----------------------|----|-----------|----|-------------|----|---------|-------|---|
| Loss From Operations | \$ | (813,487) | \$ | (1,437,225) | \$ | 623,738 | -43.4 | % |
|----------------------|----|-----------|----|-------------|----|---------|-------|---|

The following table sets forth consolidated statements of operations for the three months ended October 31 stated as a percentage of net revenues:

| | % of Net Revenues | | | |
|----------------------------|-------------------|---|-------|---|
| | 2013 | | 2012 | |
| Net Revenues | 100.0 | % | 100.0 | % |
| Cost of Services | 82.2 | % | 91.5 | % |
| Gross Profit | 17.8 | % | 8.5 | % |
| Operating expenses: | | | | |
| General and administrative | 48.8 | % | 81.3 | % |
| Depreciation | 0.3 | % | 0.3 | % |
| Total operating expenses | 49.1 | % | 81.6 | % |
| Loss From Operations | -31.2 | % | -73.1 | % |

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. The increase was attributable to:

| | |
|-----------|---|
| \$490,137 | New hospital contracts, increased same-market area growth and expansion of hospitalist services with existing medical group clients at new hospitals. |
| \$149,941 | Increase in MMG and ACC services |

Cost of services are comprised primarily of physician compensation and related expenses. The (increase) decrease was attributable to:

| | |
|-------------|--|
| \$(570,113) | Increase in physician costs attributable to new physicians hired to support new contracts. |
| \$338,673 | Decrease in physician stock-based compensation |
| \$(110,219) | Increase in MMG and ACC services |

Cost of services as percentage of net revenues decreased principally due to lower stock-based compensation for the three months ended October 31, 2013.

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. The Company is also funding initiatives associated with establishment of ApolloMed ACO, MMG, and ACC, which had limited or no revenue for the three months ended October 31, 2013. The (increase) decrease in general and administrative expenses was attributable to:

| | |
|-------------|---|
| \$783,057 | Decrease in stock-based compensation to employees, directors and consultants. |
| \$(98,152) | Increase in board, legal and professional fees to support corporate initiatives. |
| \$(100,523) | Increase in personnel, services and related expenses related to the ACO initiative. |
| \$(110,147) | Increase in administrative personnel and facilities costs to support growth in the business |
| \$(147,438) | Increase in MMG and ACC services |

Loss from operations decreased primarily due to a decrease in stock-based compensation, partially offset by an increase in spending associated with the ACO, ACC and MMG initiatives.

| | 2013 | 2012 | Change |
|--|------|--------------|----------------|
| Loss on change in fair value of derivative liabilities | \$ - | \$ 3,063,144 | \$ (3,063,144) |

The decrease in loss on change in fair value of derivative liabilities reflects the change in the fair value of the Company's derivative liabilities for the three months ended October 31, 2012. The Company did not have derivative liabilities as of October 31, 2013 and July 31, 2013.

| | 2013 | 2012 | Change |
|------------------|------------|------------|-------------|
| Interest expense | \$ 178,679 | \$ 221,239 | \$ (42,560) |

Interest expense decreased in 2013 due to higher discount amortization in 2012 as a result of the bifurcation of the derivative liabilities that resulted in additional debt discount and additional discount amortization for the three months ended October 31, 2012, partially offset by higher interest expense as a result of higher borrowings under Notes and Lines of Credit Payable and the 9% Convertible Notes.

| | 2013 | 2012 | Change |
|----------|--------------|--------------|----------------|
| Net loss | \$ 1,014,646 | \$ 4,721,401 | \$ (3,706,755) |

Net loss decreased primarily due to lower loss from change in fair value of derivatives and lower stock-based compensation, partially offset by increase in spending associated with the ACO, ACC and MMG initiatives.

Nine months ended October 31, 2013 compared to nine months ended October 31, 2012

The Company's results of operations were as follows for the nine months ended October 31:

| | 2013 | 2012 | Change | Percentage change | |
|----------------------------|----------------|----------------|----------------|-------------------|---|
| Net Revenues | \$ 7,644,843 | \$ 5,246,448 | \$ 2,398,395 | 45.7 | % |
| Cost of Services | 6,367,501 | 4,333,289 | 2,034,212 | 46.9 | % |
| Gross Profit | 1,277,342 | 913,159 | 364,183 | 39.9 | % |
| Operating expenses: | | | | | |
| General and administrative | 4,143,622 | 2,451,778 | 1,691,844 | 69.0 | % |
| Depreciation | 19,566 | 14,785 | 4,781 | 32.3 | % |
| Total operating expenses | 4,163,188 | 2,466,563 | 1,696,625 | 68.8 | % |
| Loss From Operations | \$ (2,885,846) | \$ (1,553,404) | \$ (1,332,442) | 85.8 | % |

The following table sets forth consolidated statements of operations for the nine months ended October 31 stated as a percentage of net revenues:

| | % of Net Revenues | | | |
|----------------------------|-------------------|---|-------|---|
| | 2013 | | 2012 | |
| Net Revenues | 100.0 | % | 100.0 | % |
| Cost of Services | 83.3 | % | 82.6 | % |
| Gross Profit | 16.7 | % | 17.4 | % |
| Operating expenses: | | | | |
| General and administrative | 54.2 | % | 46.7 | % |
| Depreciation | 0.3 | % | 0.3 | % |
| Total operating expenses | 54.5 | % | 47.0 | % |
| Loss From Operations | -37.7 | % | -29.6 | % |

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. The increase was attributable to:

| | |
|--------------|---|
| \$ 1,889,226 | New hospital contracts, increased same-market area growth and expansion of services with existing medical group clients at new hospitals. |
| \$ 163,136 | Increase in MMG and ACC services. |
| \$ 346,034 | Acquisition of VMM in August 2012. |

Cost of services are comprised primarily of physician compensation and related expenses. The increase was attributable to:

| | |
|---------------|--|
| \$(1,655,242) | Increase in physician costs attributable to new physicians hired to support new contracts. |
| \$(125,976) | Increase in physician stock-based compensation. |
| \$(135,957) | Acquisition of VMM in August 2012. |
| \$(117,037) | Increase in MMG and ACC services. |

Cost of services as percentage of net revenues decreased principally due to higher stock-based compensation for the nine months ended October 31, 2013.

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. The Company is also funding initiatives associated with establishment of ApolloMed ACO, MMG, and ACC, which had limited or no revenue for the nine months ended October 31, 2013. The increase in general and administrative expenses was attributable to:

| | |
|-------------|--|
| \$(168,405) | Increase in stock-based compensation to employees, directors and consultants. |
| \$(265,592) | Increase in board, legal and professional fees to support the continuing growth of our operations. |
| \$(261,227) | Increase in personnel, services and related expenses related to the ACO initiative. |
| \$(345,782) | Increase in administrative personnel and facilities costs to support growth in the business |
| \$(236,723) | Increase in operating expenses due to the acquisition of VMM in August 2012. |
| \$(248,621) | Increase in MMG and ACC services. |
| \$(165,495) | Increase in other expenses due to business growth. |

Loss from operations increased primarily due to the increase in stock-based compensation and an increase in spending associated with the ACO, ACC and MMG initiatives.

| | 2013 | 2012 | Change |
|--|------|--------------|----------------|
| Loss on change in fair value of derivative liabilities | \$ - | \$ 5,853,855 | \$ (5,853,855) |

The decrease in loss on change in fair value of derivative liabilities reflects the change in the fair value of the Company's derivative liabilities for the nine months ended October 31, 2012. The Company did not have derivative liabilities as of January 31, 2013 and October 31, 2013.

| | 2013 | 2012 | Change |
|------------------|------------|------------|--------------|
| Interest expense | \$ 476,978 | \$ 670,181 | \$ (193,203) |

Interest expense decreased due to lower discount amortization in 2013 compared to 2012 as a result of the bifurcation of the derivative liabilities that resulted in additional debt discount and additional discount amortization for the nine months ended October 31, 2012, partially offset by higher interest expense as a result of higher borrowings under Notes and Lines of Credit Payable and the 9% Convertible Notes.

| | 2013 | 2012 | Change |
|----------|-------------|-------------|---------------|
| Net loss | \$3,395,878 | \$8,081,583 | \$(4,685,705) |

Net loss decreased primarily due to lower loss from change in fair value of derivatives, partially offset by higher stock-based compensation, and increased spending associated with the ACO, ACC and MMG initiatives.

Liquidity and Capital Resources

At October 31, 2013, the Company had cash and cash equivalents of \$1,012,290 compared to cash and cash equivalents of approximately \$1,176,727 at January 31, 2013. At October 31, 2013 the Company has borrowings totaling \$ 1,037,743 that mature within one year and \$2,500,000 in long-term borrowings (before debt discount).

The Company incurred the following net operating loss and cash from operating activities for the nine months ended October 31, 2013:

| | |
|-----------------------------------|-------------|
| Net operating loss | \$2,885,846 |
| Cash used in operating activities | \$928,745 |

The Company's accumulated and stockholders' deficit at October 31, 2013 was as follows:

| | |
|-----------------------|--------------|
| Accumulated deficit | \$14,418,150 |
| Stockholders' deficit | \$1,046,238 |

To date the Company has funded its operations from internally generated cash flow and external sources, including the proceeds from the issuance of debt and equity securities which have provided funds for near-term operations and growth. In October 2013 the Company entered into a credit agreement (as amended on December 20, 2013) with a financing entity that provides for the Company to borrow up to \$4,000,000 (see Note 5). The Company intends to use the proceeds from the line of credit for retirement of other indebtedness, working capital and general corporate purposes. The current operating plan indicates that losses from operations may be incurred for all of fiscal 2014. 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. On January 31, 2013 the Company raised through a private placement offering \$880,000 of par value 9% Senior Subordinated Callable Convertible Promissory Notes maturing February 15, 2016 (the "9% Notes") and through July 31, 2013 had raised an aggregate of \$1.1 million in gross proceeds (see Note 5). In March, 2013, the Company initiated a private placement of up to 7,500,000 shares of its common stock at a price per share of \$0.40 (the "Equity Offering"), and has raised \$730,000 during the nine months ended October 31, 2013 (see Note 8). The Company intends to use the net proceeds after issue costs from the 9% Notes and the Equity Offering for working capital and general corporate purposes.

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, 2013

For the nine months ended October 31, 2013, cash used in operating activities was \$928,745. This was the result of net losses of \$3,395,878 offset by cash provided by non-cash expenses of \$2,329,111 and change in working capital of \$138,022. Non-cash expenses primarily include depreciation expense, issuance of shares of common stock for services, stock option compensation expense, amortization of financing costs, and amortization of debt discount.

Cash provided by working capital was due to:

| | |
|--|------------|
| Decrease in Accounts receivable | \$ 106,525 |
| Decrease in Due from affiliates | \$ 898 |
| Decrease in Prepaid expenses and advances | \$ 37,240 |
| Increase in Accounts payable and accrued liabilities | \$ 17,859 |

Cash used by working capital was due to:

| | |
|--------------------------|------------|
| Increase in Other assets | \$(24,500) |
|--------------------------|------------|

For the nine months ended October 31, 2013, cash used in investing activities was \$113,859 related to the Los Angeles, CA medical clinic acquisition and investment in office and technology equipment.

For the nine months ended October 31, 2013, net cash provided by financing activities was \$878,167 related to \$730,000 in proceeds from the issuance of common stock and \$220,000 in gross cash proceeds from the issuance of 9% Senior Subordinated Convertible Notes, partially offset by \$240,000 in distributions to non-controlling interest shareholder and deferred financing costs. Borrowings were used to retire the \$500,000 Senior Secured Note payable to SpaGus Apollo, LLC, to fund working capital requirements, and to fund the ACO, ACC and MMG initiatives.

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, 2013. There have been no changes to our critical accounting policies since January 31, 2013.

Off Balance Sheet Arrangements

As of October 31, 2013, we had no off-balance sheet arrangements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company holds lines of credit with variable rate debt aggregating approximately \$907,000. The impact of a 1.0% increase in interest rate in our lines of credit would be immaterial.

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, 2013, 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, 2013.

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, 2013, 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, 2013 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

In March 2013, the Company initiated a private placement of up to 7,500,000 shares of its common stock at a price per share of \$0.40 (the "Equity Offering"), and during the three months ended October 31, 2013 the Company issued 750,000 shares of common stock to various accredited investors for proceeds of \$300,000 and during the nine months ended October 31, 2013 the Company issued 1,825,000 shares of common stock to various accredited investors for proceeds of \$730,000. The Company will use the proceeds for working capital, to fund the MMG, ACC and ACO initiatives and general corporate purposes.

On April 30, 2013, the Company's Board of Directors authorized the issuance of 300,000 shares of common stock to Kanehoe Advisors for consulting services, 300,000 shares of common stock to Gary Augusta for consulting services, and 100,000 shares of common stock for other professional services during the three months ended April 30, 2013. The Company issued these shares during the three months ended October 31, 2013.

During the three months ended July 31, 2013 the Company accrued 180,000 shares of common stock for professional services. The Company issued these shares during the three months ended October 31, 2013.

During the three months ended October 31, 2013, the Company accrued 162,500 shares of common stock for professional services. These shares were not issued as of, and were recorded as a liability at, October 31, 2013.

During the three months ended April 30, 2013 the Company's Board of Directors authorized the issuance of options for 150,000 shares of common stock with an exercise price of \$0.21 per share to Mark Meyers pursuant to Mr. Meyers' consulting agreement. The options vest immediately and expire on the tenth anniversary of issuance.

During the three months ended April 30, 2013, the Company issued awards of options for 382,000 shares of the Company's common stock. The options generally vest on a monthly basis over a 36 month period, and expire on the tenth anniversary of issuance.

During the three months ended July 31, 2013 the Company's Board of Directors authorized the issuance of options for 150,000 shares of common stock with an exercise price of \$0.21 per share to Mark Meyers pursuant to Mr. Meyers' consulting agreement. The options vest immediately and expire on the tenth anniversary of issuance.

On May 21, 2013, the Company's Board of Directors authorized the issuance of 400,000 common stock options to David Schmidt pursuant to the Director's Agreement between Mr. Schmidt and the Company in connection with his appointment to the Company's Board of Directors. The options vest evenly over 36 months.

During the three months ended July 31, 2013, the Company's Board of Directors authorized the issuance or modification of common stock option awards for 1,733,000 shares to certain employees. The options generally vested upon grant.

During the three months ended October 31, 2013, the Company's Board of Directors authorized the issuance of common stock option awards for 120,000 shares to an employee and consultant. The options vest on various dates through July 31, 2014.

On various dates during the three and nine months ended October 31, 2013, ApolloMed ACO's Board of Directors approved the issuance of 62,000 shares of ApolloMed ACO restricted common stock under the ApolloMed Accountable Care Organization, Inc. 2012 Equity Incentive Plan to ApolloMed ACO physician participants. The awards of restricted stock under the Plan vest (i) one-third on the date of grant; (ii) one-third on the first anniversary of the date of grant, if the grantee has remained in service continuously until that date; and (iii) one-third on the second anniversary of the date of grant if the grantee has remained in service continuously until that date.

The Company relied upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended, for transactions not involving a public offering.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

ITEM 5. OTHER INFORMATION

On September 30, 2013 Apollo Medical Management, Inc. (“AMM”) entered into an Intercompany Revolving Loan Agreement with ApolloMed Hospitalists, a Medical Corporation (“AMH”) whereby AMM agreed to provide AMH a revolving loan commitment of up to \$10 million (“the Loan”). Interest on the outstanding principal balance under the Loan shall accrue at the greater of 10% per annum or LIBOR rate in effect. The Loan Agreement terminates, and all borrowings and accrued interest become due on September 30, 2018.

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). |
| 10.20 | Credit Agreement, between Apollo Medical Holdings, Inc. and NNA of Nevada, Inc., dated October 15, 2013 (filed as an exhibit to Current Report on Form 8-K dated October 18, 2013 and incorporated herein by reference.) |
| 10.21 | Consulting and Representation Agreement between Augusta Advisors, Inc. and Apollo Medical Holdings, Inc. dated November 18, 2013 (filed as an exhibit to Current Report on Form 8-K dated November 22, 2013 and incorporated herein by reference.) |
| 10.22+ | Intercompany Revolving Loan Agreement dated as of September 30, 2013, between Apollo Medical Management, Inc. and ApolloMed Hospitalists, a Medical Corporation |

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.INS* XBRL Instance Document
- 101.SCH* XBRL Taxonomy Extension Schema Document
- 101.CAL* XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF* XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB* XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE* XBRL Taxonomy Extension Presentation Linkbase Document

+ Filed herewith.

* Pursuant to Rule 406T of Regulation S-T, XBRL (Extensible Business Reporting Language) information is furnished and not filed herewith, is not a part of a registration statement or Prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

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 20, 2013

By: /s/ Warren Hosseinion
Warren Hosseinion
Chief Executive Officer and Director

Dated: December 20, 2013

By: /s/ Kyle Francis
Kyle Francis
Chief Financial Officer
(Principal Financial and Accounting
Officer)