

Apollo Medical Holdings, Inc.
Form 10-Q
November 14, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended **September 30, 2018**

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

For the transition period from ___ to ___.

Commission File No. 001-37392

Apollo Medical Holdings, Inc.

(Exact name of registrant as specified in its charter)

Delaware **46-3837784**
(State or other jurisdiction (IRS Employer Identification No.)
of incorporation or organization)

1668 S. Garfield Avenue, 2nd Floor, Alhambra, CA 91801

(Address of principal executive offices and zip code)

(626) 282-0288

(Registrant's telephone number, including area code)

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 every Interactive Data File required to be submitted 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). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 November 5, 2018, there were 34,084,641 shares of common stock of the registrant, \$0.001 par value per share, issued and outstanding.

APOLLO MEDICAL HOLDINGS, INC.

INDEX TO FORM 10-Q FILING

TABLE OF CONTENTS

	PAGE
<u>Introductory Note</u>	<u>3</u>
<u>Note About Forward-Looking Statements</u>	<u>3</u>
<u>PART I</u>	
<u>FINANCIAL INFORMATION</u>	
<u>Item 1. Condensed Consolidated Financial Statements – Unaudited</u>	<u>5</u>
<u>Balance Sheets as of September 30, 2018 and December 31, 2017</u>	<u>5</u>
<u>Statements of Income for the Three and Nine Months Ended September 30, 2018 and 2017</u>	<u>7</u>
<u>Statements of Cash Flows for the Nine Months Ended September 30, 2018 and 2017</u>	<u>8</u>
<u>Notes to Condensed Consolidated Financial Statements - Unaudited</u>	<u>10</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>43</u>
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>51</u>
<u>Item 4. Controls and Procedures</u>	<u>51</u>
<u>PART II</u>	
<u>OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	<u>52</u>
<u>Item 1A. Risk Factors</u>	<u>52</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>52</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>53</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>53</u>
<u>Item 5. Other Information</u>	<u>53</u>
<u>Item 6. Exhibits</u>	<u>53</u>

INTRODUCTORY NOTE

Unless the context dictates otherwise, references in this Quarterly Report on Form 10-Q (the “Report”) to the “Company,” “we,” “us,” “our,” and similar words are to Apollo Medical Holdings, Inc., a Delaware corporation, and its consolidated subsidiaries and affiliated entities, as appropriate, including its consolidated variable interest entities (“VIEs”).

The Centers for Medicare & Medicaid Services (“CMS”) have not reviewed any statements contained in this Quarterly Report on Form 10-Q describing the participation of APA ACO, Inc. (“APAACO”) in the next generation accountable care organization (“NGACO”) model.

Trade names and trademarks of the Company and its subsidiaries referred to herein and their respective logos, are our property. This Quarterly Report on Form 10-Q may contain additional trade names and/or trademarks of other companies, which are the property of their respective owners. We do not intend our use or display of other companies’ trade names and/or trademarks, if any, to imply an endorsement or sponsorship of us by such companies, or any relationship with any of these companies.

NOTE ABOUT FORWARD-LOOKING STATEMENTS

This document contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). All statements other than statements of historical fact are “forward-looking statements” for purposes of federal and state securities laws, including, but not limited to, any statements about our future business, financial condition, strategic transactions (including mergers, acquisitions and management services agreements), sources of revenue, operating results, plans, objectives, expectations and intentions, any projections of earnings, revenue or other financial items, such as our projected capitation from CMS and our future liquidity; any statements of any plans, targets, strategies and objectives of management for future operations such as any material opportunities that we believe exist for our company; any statements concerning anticipated, proposed or prospective services, developments, timelines, costs, investments, returns, effects or results, such as our outlook regarding our NGACO, our integration-related costs following the closing of the reverse merger of Apollo Medical Holdings, Inc. and Network Medical Management, Inc., the expected substantial completion of such integration, and our strategic transactions, including the prospects of and future investments for our strategic transactions; any statements regarding management’s view of future expectations and prospects for us; any statements about prospective adoption of new accounting standards or effects of changes in accounting standards; any statements regarding future economic conditions or performance of our company; any statements of belief; any statements of assumptions underlying any of the foregoing; and other statements that are not historical facts. Forward-looking statements may be identified by the use of forward-looking terms such as “anticipate,” “could,” “can,” “may,” “might,” “potential,” “predict,” “should,” “estimate,” “expect,” “project,” “believe,” “plan,” “envision,” “intend,” “con-

“will,” “would,” and the negative of such terms, other variations on such terms or other similar or comparable words, phrases or terminology. Forward-looking statements reflect current views with respect to future events and condition and are based on current estimates, expectations and assumptions only as of the date of this Quarterly Report on Form 10-Q and therefore are speculative in nature and subject to change. Although we believe that the expectations reflected in our forward-looking statements are reasonable, our future financial condition and results of operations, as well as any forward-looking statements, are subject to change and significant risks and uncertainties that could cause actual condition, outcomes and results to differ materially from those indicated by such statements. Should one or more of these risks or uncertainties materialize, or should any expectations or assumptions underlying the relevant forward-looking statements prove incorrect, it could significantly affect our operations and may cause the actual actions, results, financial condition, performance or achievements of the Company and its subsidiaries and variable interest entities to be substantially different from any future actions, results, financial condition, performance or achievements, expressed or implied by any such forward-looking statements, as being expected, anticipated, intended, planned, believed, sought, estimated or projected on the basis of historical trends.

Some of the key factors impacting these risks and uncertainties include, but are not limited to:

risks related to our ability, following the consummation of the reverse merger of Apollo Medical Holdings, Inc. and Network Medical Management, Inc., to successfully integrate operations of the two groups, including realizing the synergies anticipated from the transaction, which may not be fully realized or may take longer to realize than expected; and our ability to successfully locate new strategic targets and integrate our operations following mergers, acquisitions or other strategic transactions, including that the integration may be more costly or more time consuming and complex than anticipated and that synergies anticipated to be realized may not be fully realized or may take longer to realize than expected;

our dependence on a few key payors;

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

the success of our focus on our NGACO, to which we have devoted, and intend to continue to devote, considerable effort and resources, financial and otherwise, including whether we can manage medical costs for patients assigned to us within the capitation received from CMS and whether we can continue to participate in the All-Inclusive Population-Based Payment Mechanism (“AIPBP Mechanism”) of the NGACO Model as payments thereunder represent a significant part of our total revenues;

our expenses may exceed capitation payments, whether from CMS under the AIPBP Mechanism or health plans, which could lead to substantial losses, and uncertainty related to the final settlements of such incurred expenses and our actual earnings that are generally determined in subsequent periods;

· general economic uncertainty;

· the impact of emerging and existing competitors;

· any adverse development in general market, business, economic, labor, regulatory and political conditions;

· any outbreak or escalation of acts of terrorism or natural disasters;

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

changes in laws and regulations and other market-wide developments affecting our industry in general and our operations in particular, including the impact of any change to applicable laws and regulations relating to trade, monetary and fiscal policies, taxes, price controls, regulatory approval of new products, registration and licensure, healthcare reform and reimbursements for medical services from private insurance, on which we are significantly dependent in generating revenue and the impact, including additional costs, of mandates and other obligations that may be imposed upon us as a result of new or revised federal and state healthcare laws;

· risks related to our ability to raise capital as equity or debt to finance our growth and strategic transactions;

· our ability to retain key individuals, including members of senior management;

· the impact of rigorous competition in the healthcare industry;

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

- the effectiveness of our compliance and control initiatives;
- risks related to changes in accounting literature or accounting interpretations; and
- the fluctuations in the market value of our securities.

For a detailed description of these and other factors that could cause our actual results to differ materially from those expressed in any forward-looking statement, please see Item 1A entitled “Risk Factors,” of our Annual Report on Form 10-K for the year ended December 31, 2017 as filed with the U.S. Securities and Exchange Commission (“SEC”) on April 2, 2018. In light of the foregoing, investors are advised to carefully read this Quarterly Report on Form 10-Q and our most recent Annual Report on Form 10-K in connection with the important disclaimers set forth above and are urged not to rely on any forward-looking statements in reaching any conclusions or making any investment decisions about us or our securities. Except as required by law, we do not intend, and undertake no obligation, to update any statement, whether as a result of the receipt of new information, the occurrence of future events, the change of circumstances or otherwise. We further do not accept any responsibility for any projections or reports published by analysts, investors or other third parties.

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

	September 30, 2018	December 31, 2017
Assets		
Current assets		
Cash and cash equivalents	\$119,779,499	\$99,749,199
Restricted cash – short-term	4,218,176	18,005,661
Fiduciary cash	3,434,409	2,017,437
Investment in marketable securities	1,141,890	1,143,095
Receivables, net	70,084,171	20,117,304
Prepaid expenses and other current assets	4,175,308	3,126,866
Total current assets	202,833,453	144,159,562
Noncurrent assets		
Land, property and equipment, net	12,909,206	13,814,306
Intangible assets, net	90,762,980	103,533,558
Goodwill	189,604,746	189,847,202
Loans receivable – related parties	7,500,000	5,000,000
Loan receivable	5,000,000	10,000,000
Investment in a privately held entity that does not report net asset value per share	405,000	-
Investments in other entities – equity method	24,122,895	21,903,524
Investment in joint venture – equity method	16,673,840	-
Restricted cash – long-term	745,412	745,235
Other assets	1,341,337	1,632,406
Total noncurrent assets	349,065,416	346,476,231
Total assets	\$551,898,869	\$490,635,793

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

	September 30, 2018	December 31, 2017
Liabilities, Mezzanine Equity and Stockholders' Equity		
Current liabilities		
Lines of credit, short-term	\$-	\$5,025,000
Accounts payable and accrued expenses	44,974,805	13,279,620
Incentives payable	5,000,000	21,500,000
Fiduciary accounts payable	3,434,409	2,017,437
Medical liabilities	33,505,423	63,972,318
Income taxes payable	1,285,653	3,198,495
Bank loan	159,906	510,391
Dividends payable	3,784,088	-
Capital lease obligations	100,982	98,738
Total current liabilities	92,245,266	109,601,999
Noncurrent liabilities		
Lines of credit, long-term	13,000,000	-
Deferred tax liability	34,651,670	24,916,598
Liability for unissued equity shares	1,185,025	1,185,025
Dividends payable	-	18,000,000
Capital lease obligations, net of current portion	542,982	619,001
Total noncurrent liabilities	49,379,677	44,720,624
Total liabilities	141,624,943	154,322,623
Commitments and Contingencies (Note 11)		
Mezzanine equity		
Noncontrolling interest in Allied Pacific of California IPA ("APC")	225,147,257	172,129,744
Stockholders' equity		
Series A Preferred stock, par value \$0.001; 5,000,000 shares authorized (inclusive of Series B Preferred stock); 1,111,111 issued and zero outstanding	-	-
	-	-

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

Series B Preferred stock, par value \$0.001; 5,000,000 shares authorized (inclusive of Series A Preferred stock); 555,555 issued and zero outstanding		
Common stock, par value \$0.001; 100,000,000 shares authorized, 33,025,189 and 32,304,876 shares outstanding, excluding 1,682,110 treasury shares held by APC, at September 30, 2018 and December 31, 2017, respectively (see Note 10)	33,025	32,305
Additional paid-in capital	162,810,695	158,181,192
Retained earnings	17,100,065	1,734,531
	179,943,785	159,948,028
Noncontrolling interest	5,182,884	4,235,398
Total stockholders' equity	185,126,669	164,183,426
Total liabilities, mezzanine equity and stockholders' equity	\$551,898,869	\$490,635,793

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

APOLLO MEDICAL HOLDINGS, INC.**CONDENSED CONSOLIDATED STATEMENTS OF INCOME****(UNAUDITED)**

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Revenue				
Capitation, net	\$90,612,720	\$66,130,166	\$266,834,186	\$193,725,886
Risk pool settlements and incentives	57,788,932	21,498,540	89,641,885	40,994,338
Management fee income	12,851,178	6,449,329	37,297,358	19,274,141
Fee-for-service, net	5,665,053	2,729,295	19,092,631	8,437,756
Other income	362,527	326,951	1,585,623	1,349,922
Total revenue	167,280,410	97,134,281	414,451,683	263,782,043
Expenses				
Cost of services	96,828,245	66,736,945	281,721,686	192,951,753
General and administrative expenses	9,032,024	4,380,878	31,481,810	15,434,640
Depreciation and amortization	4,843,037	4,764,783	14,819,627	14,407,113
Total expenses	110,703,306	75,882,606	328,023,123	222,793,506
Income from operations	56,577,104	21,251,675	86,428,560	40,988,537
Other income (expense)				
Loss from equity method investments	(4,215,056)	(1,461,096)	(2,573,219)	(28,936)
Interest expense	(178,318)	(14,984)	(374,002)	(16,370)
Interest income	343,369	226,864	953,003	618,641
Change in fair value of derivative instruments	-	(406,665)	-	(278,886)
Other income	684,283	94,471	1,112,935	122,609
Total other income (expense), net	(3,365,722)	(1,561,410)	(881,283)	417,058
Income before provision for income taxes	53,211,382	19,690,265	85,547,277	41,405,595
Provision for income taxes	14,585,942	7,865,902	23,338,589	16,491,982
Net income	38,625,440	11,824,363	62,208,688	24,913,613
Net income attributable to noncontrolling interest	29,519,043	6,203,991	48,277,734	12,948,837
	\$9,106,397	\$5,620,372	\$13,930,954	\$11,964,776

Net income attributable to Apollo Medical Holdings, Inc.

Earnings per share – basic	\$0.28	\$0.22	\$0.43	\$0.48
Earnings per share – diluted	\$0.24	\$0.20	\$0.37	\$0.42
Weighted average shares of common stock outstanding-basic	32,917,007	25,067,954	32,672,793	25,067,954
Weighted average shares of common stock outstanding – diluted	38,387,700	28,417,877	38,010,838	28,417,877

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

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

	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities		
Net income	\$62,208,688	\$24,913,613
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	14,819,627	14,407,113
Loss on disposal of property and equipment	41,782	-
Share-based compensation	1,238,708	963,699
Unrealized loss (gain) from investment in equity securities	10,218	(79,527)
Change in fair value of derivative instrument	-	278,886
Loss from equity method investments	2,573,219	28,936
Deferred tax	7,135,408	(5,730,758)
Changes in operating assets and liabilities, net of acquisition amounts:		
Receivables, net	(38,366,867)	263,132
Prepaid expenses and other current assets	(590,602)	(736,525)
Other assets	(26,931)	(131,983)
Accounts payable and accrued expenses	31,701,367	(1,897,636)
Incentives payable	(16,500,000)	(7,939,317)
Medical liabilities	(30,466,895)	(752,876)
Income taxes payable	(1,912,842)	12,733,179
Net cash provided by operating activities	31,864,880	36,319,936
Cash flows from investing activities		
Purchases of marketable securities	(9,013)	(5,283)
Repayments from related parties – loans receivable	-	200,000
Advances to related parties – loans receivable	(2,500,000)	(5,000,000)
Purchase of investments – joint venture	(16,673,840)	(400,000)
Dividends received from equity method investments	207,410	1,000,000
Purchase of investment in a privately held entity	(405,000)	-
Proceeds on sale of investments – cost method	-	25,000
Purchases of property and equipment	(867,732)	(1,627,760)
Net cash used in investing activities	(20,248,175)	(5,808,043)
Cash flows from financing activities		
Repayment of bank loan	(375,485)	-
Dividends paid	(16,725,799)	(9,490,632)
Change in noncontrolling interest capital	27,300	-

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

Borrowings on line of credit	8,000,000	-
Payment of capital lease obligations	(73,775)	(78,343)
Proceeds from sale of common stock of VIE	200,000	-
Proceeds from the exercise of stock options and warrants	3,574,046	425,025
Net cash used in financing activities	(5,373,713)	(9,143,950)
Net increase in cash, cash equivalents and restricted cash	6,242,992	21,367,943
Cash, cash equivalents and restricted cash, beginning of period	118,500,095	54,925,712
Cash, cash equivalents and restricted cash, end of period	\$ 124,743,087	\$ 76,293,655
Supplementary disclosures of cash flow information:		
Cash paid for income taxes	\$ 18,032,590	\$ 9,489,563
Cash paid for interest	287,332	1,748

APOLLO MEDICAL HOLDINGS, INC.**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(UNAUDITED)****Supplemental disclosures of non-cash investing and financing activities**

Cashless exercise of stock options	\$47	\$-
Deferred tax liability adjustment to goodwill	1,110,456	-
Cumulative effect adjustment for ASC 606 included in accounts receivable	11,600,000	-
Cumulative effect adjustment for ASC 606 included in deferred tax liabilities	3,246,098	-
Purchase price adjustment for acceleration of vested stock options	868,000	-
Conversion of loan receivable to investment in Accountable Health Care, IPA	5,000,000	-
Reclassification of dividends payable to accounts payable and accrued expenses	432,113	-
Reclassification of APS noncontrolling interest to equity	443,184	-
Reclassification of stock options exercised to liability for unissued common shares	-	425,025
Reclassification of fiduciary cash to payable	\$1,416,972	\$51,525

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the condensed consolidated balance sheets that sum to the total amounts of cash, cash equivalents, and restricted cash shown in the condensed consolidated statements of cash flows.

	Nine Months Ended September 30,	
	2018	2017
Cash and cash equivalents	\$119,779,499	\$76,293,655
Restricted cash – long-term - letters of credit	745,412	-
Restricted cash – short-term - distributions to former NMM shareholders	4,218,176	-
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	\$124,743,087	\$76,293,655

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

Overview

Apollo Medical Holdings, Inc. (“ApolloMed”), entered into an Agreement and Plan of Merger dated as of December 21, 2016 (as amended on March 30, 2017 and October 17, 2017) (the “Merger Agreement”) among ApolloMed, Apollo Acquisition Corp., a California corporation and wholly-owned subsidiary of ApolloMed, Network Medical Management, Inc. (“NMM”), and Kenneth Sim, M.D., not individually but in his capacity as the representative of the shareholders of NMM, pursuant to which ApolloMed effected a merger with NMM (the “Merger”). The Merger closed and became effective on December 8, 2017 (the “Closing”) (see Note 3). As a result of the Merger, NMM is now a wholly-owned subsidiary of ApolloMed and the former NMM shareholders own a majority of the issued and outstanding common stock of ApolloMed. For accounting purposes, the Merger is treated as a “reverse acquisition,” and NMM is considered the accounting acquirer and ApolloMed is the accounting acquiree. Accordingly, as of the Closing, NMM’s historical results of operations replaced ApolloMed’s historical results of operations for all periods prior to the Merger, and the results of operations of both companies are included in the accompanying consolidated financial statements for all periods following the Merger. Effective as of the Closing, ApolloMed’s board of directors approved a change in ApolloMed’s fiscal year end from March 31 to December 31, to correspond with NMM’s fiscal year end prior to the Merger.

The combined company, following the Merger, together with its affiliated physician groups and consolidated entities (collectively, the “Company”), is a physician-centric integrated population health management company providing coordinated, outcomes-based medical care in a cost-effective manner and serving patients in California, the majority of whom are covered by private or public insurance provided through Medicare, Medicaid and health maintenance organizations (“HMOs”). A small portion of the Company’s revenue is generated from non-insured patients. The Company provides care coordination services to each major constituent of the healthcare delivery system, including patients, families, primary care physicians, specialists, acute care hospitals, alternative sites of inpatient care, physician groups and health plans. The Company’s physician network consists of primary care physicians, specialist physicians and hospitalists. The Company operates primarily through the following subsidiaries of ApolloMed: NMM, Apollo Medical Management, Inc. (“AMM”), APAACO and Apollo Care Connect, Inc. (“Apollo Care Connect”), and their consolidated entities.

NMM was formed in 1994 as a management service organization (“MSO”) for the purposes of providing management services to medical companies and independent practice associations (“IPAs”). The management services include primarily billing, collection, accounting, administrative, quality assurance, marketing, compliance and education.

Allied Physicians of California IPA, a Professional Medical Corporation d.b.a. Allied Pacific of California IPA (“APC”) was incorporated on August 17, 1992 for the purpose of arranging health care services as an IPA. APC has contracts with various HMOs or licensed health care service plans as defined in the California Knox-Keene Health Care Service Plan Act of 1975. Each HMO negotiates a fixed amount per member per month (“PMPM”) that is to be paid to APC. In return, APC arranges for the delivery of health care services by contracting with physicians or professional medical corporations for primary care and specialty care services. APC assumes the financial risk of the cost of delivering health care services in excess of the fixed amounts received. Some of the risk is transferred to the contracted physicians or professional corporations. The risk is also minimized by stop-loss provisions in contracts with HMOs.

On July 1, 1999, APC entered into an amended and restated management and administrative services agreement with NMM for an initial fixed term of 30 years. In accordance with relevant accounting guidance, APC is determined to be a variable interest entity (“VIE”) of the Company as NMM is the primary beneficiary with the ability to direct the activities (excluding clinical decisions) that most significantly affect APC’s economic performance through its majority representation on the APC Joint Planning Board; therefore APC is consolidated by NMM. As of September 30, 2018 and December 31, 2017, APC had an ownership interest of 4.85% and 4.95% in ApolloMed, respectively.

Concourse Diagnostic Surgery Center, LLC (“CDSC”) was formed on March 25, 2010 in the state of California. CDSC is an ambulatory surgery center in City of Industry, California. Its facility is Medicare Certified and accredited by the Accreditation Association for Ambulatory Healthcare, Inc. During 2011, APC invested \$625,000 for a 41.59% ownership interest in CDSC. APC’s ownership percentage in CDSC’s capital stock increased to 43.43% on July 31, 2016. CDSC is consolidated as a VIE by APC as it was determined that APC has a controlling financial interest in CDSC and is the primary beneficiary of CDSC.

APC also holds a 40% ownership interest in Pacific Ambulatory Surgery Center, LLC (“PASC”), a multi-specialty outpatient surgery center.

APC-LSMA was formed on October 15, 2012 as a designated shareholder professional corporation. Dr. Thomas Lam, a shareholder, Chief Executive and Financial Officer of APC and Co-CEO of ApolloMed, is a nominee shareholder of APC. APC makes all the investment decisions on behalf of APC-LSMA, funds these investments and receives all the distributions from the investments. APC has the obligation to absorb losses or rights to receive benefits from all the investments made by APC-LSMA. APC-LSMA's sole function is to act as the nominee shareholder for APC in other California medical professional corporations. Therefore, APC-LSMA is controlled and consolidated by APC who is the primary beneficiary of this VIE. The only activity of APC-LSMA is to hold the investments in medical corporations, including the IPA line of business of LaSalle Medical Associates ("LMA"), Pacific Medical Imaging and Oncology Center, Inc. ("PMIOC"), Diagnostic Medical Group ("DMG") and AHMC International Cancer Center ("ICC").

ICC was formed on September 2, 2010 in the state of California. ICC is a Professional Medical California Corporation and has entered into agreements with HMOs, IPAs, medical groups and other purchasers of medical services for the arrangement of services to subscribers or enrollees. On November 15, 2016, APC-LSMA, a holding company of APC, agreed to purchase and acquire from ICC 40% of the aggregate issued and outstanding shares of capital stock of ICC for \$400,000 in cash. Certain requirements to complete the investment transaction was completed in August 2017 and effective on October 31, 2017, ICC was determined to be a VIE of APC and is consolidated by APC as it was determined that APC is the primary beneficiary of ICC through its obligation to absorb losses and right to receive benefits that could potentially be significant to ICC.

Universal Care Acquisition Partners, LLC ("UCAP"), a 100% owned subsidiary of APC, was formed on June 4, 2014, for the purpose of holding an investment in Universal Care, Inc. ("UCI").

APAACO, jointly owned by NMM and AMM, began participating in the next generation accountable care organization model ("NGACO Model") of the CMS in January 2017. The NGACO Model is a new CMS program that allows provider groups to assume higher levels of financial risk and potentially achieve a higher reward from participating in this new attribution-based risk sharing model. In addition to APAACO, NMM and AMM operated three accountable care organizations ("ACOs") that participated in the Medicare Shared Savings Program ("MSSP"), with the goal of improving the quality of patient care and outcomes through a more efficient and coordinated approach among providers. MSSP revenues are uncertain, and, if such amounts are payable by CMS, they will be paid on an annual basis significantly after the time earned, and are contingent on various factors, including achievement of the minimum savings rate for the relevant period. Such payments are earned and made on an "all or nothing" basis.

In 2012, ApolloMed formed an ACO, ApolloMed Accountable Care Organization, Inc. ("ApolloMed ACO") to participate in the MSSP.

On November 11, 2015, NMM, ACO Acquisition Corporation, and APCN-ACO, A Medical Professional Corp. ("APCN-ACO") entered into a reorganization agreement whereby ACO Acquisition Corporation, a newly organized

entity in which NMM is its sole shareholder, merged with APCN-ACO, effective on January 8, 2016, resulting in APCN-ACO becoming a wholly owned subsidiary of NMM.

On December 18, 2016, NMM, ACO Acquisition Corporation #2, and Allied Physicians ACO, LLC (“AP-ACO”) entered into a reorganization agreement whereby ACO Acquisition Corporation #2, a newly organized entity in which NMM is its sole shareholder, merged into AP-ACO, effective on December 20, 2016, resulting in AP-ACO becoming a wholly owned subsidiary of NMM.

As the Company is transitioning to the NGACO Model, patients and physicians with the three ACOs have substantially been transferred to APAACO. ApolloMed ACO terminated its MSSP participation agreement with CMS on December 31, 2017. APCN-ACO terminated its MSSP participation agreement with CMS on December 31, 2017. AP-ACO terminated its MSSP participation agreement with CMS on December 31, 2016.

In conjunction with the Merger, ApolloMed sold to APC-LSMA all the issued and outstanding shares of capital stock of Maverick Medical Group, Inc. (“MMG”). MMG has historically been included in the consolidated financial statements filed by ApolloMed.

AMM, a wholly-owned subsidiary of ApolloMed, manages affiliated medical groups, which consist of ApolloMed Hospitalists (“AMH”), a hospitalist company, Southern California Heart Centers (“SCHC”), Bay Area Hospitalist Associates (“BAHA”), a medical corporation, ApolloMed Care Clinic (“ACC”) and AKM Medical Group, Inc. (“AKM”). AMH provides hospitalist, intensivist and physician advisor services. SCHC is a specialty clinic that focuses on cardiac care and diagnostic testing. BAHA, ACC and AKM are no longer active to any material extent.

Apollo Care Connect, a wholly-owned subsidiary of ApolloMed, provides a cloud and mobile-based population health management platform that includes digital care plans, a case management module, connectivity with multiple healthcare tracking devices and the ability to integrate with multiple electronic health records to capture clinical data.

With the purchase of the remaining membership interests on September 1, 2018, ApolloMed holds 100% interest in Apollo Palliative Services, LLC (“APS”), which owns two Los Angeles-based companies, Best Choice Hospice Care, LLC (“BCHC”) and Holistic Care Home Health Agency, Inc. (“HCHHA”), each of which provides palliative care services.

Pulmonary Critical Care Management, Inc. (“PCCM”) and Verdugo Medical Management, Inc. (“VMM”), were operated by ApolloMed as physician practice management companies. PCCM and VMM are no longer active to any material extent.

2. Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation

The accompanying condensed consolidated balance sheet at December 31, 2017, has been derived from audited consolidated financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America (“U.S. GAAP”). The accompanying unaudited condensed consolidated financial statements as of September 30, 2018 and for the three and nine months ended September 30, 2018 and 2017, have been prepared in accordance with U.S. GAAP for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements, and should be read in conjunction with the audited consolidated financial statements and related notes to the financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017 as filed with the U.S. Securities and Exchange Commission (“SEC”) on April 2, 2018. In the opinion of management, all material adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been made to the condensed consolidated financial statements. The condensed consolidated financial statements include all material adjustments (consisting of normal recurring accruals) necessary to make the condensed consolidated financial statements not misleading as required by Regulation S-X, Rule 10-01. The Company’s quarterly results fluctuate. Operating results for the three and nine months ended September 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018 or any future periods.

Principles of Consolidation

The condensed consolidated balance sheets as of September 30, 2018 and December 31, 2017, include the accounts of ApolloMed, its consolidated subsidiaries NMM, including NMM's subsidiaries, APCN-ACO and AP-ACO, AMM, APAACO and Apollo Care Connect, NMM's consolidated VIE, APC, APC's subsidiary, UCAP, and APC's consolidated VIEs, CDSC, APC-LSMA and ICC. The condensed consolidated statements of income for the three and nine months ended September 30, 2017, include NMM, its consolidated VIE, APC, APC's subsidiary, UCAP, and APC's consolidated VIEs, CDSC, APC-LSMA and ICC. The condensed consolidated statements of income for the three and nine months ended September 30, 2018, include ApolloMed, its consolidated subsidiaries NMM, AMM, APAACO and Apollo Care Connect, NMM's consolidated VIE, APC, APC's subsidiary, UCAP, and APC's consolidated VIEs, CDSC, APC-LSMA and ICC.

All material intercompany balances and transactions have been eliminated in consolidation.

Business Combinations

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

Reportable Segments

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

Use of Estimates

The preparation of condensed consolidated financial statements and related disclosures in conformity with U.S. 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 condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include collectability of receivables, recoverability of long-lived and intangible assets, business combination and goodwill valuation and impairment, accrual of medical liabilities (including incurred, but not reported ("IBNR") claims), determination of full-risk and shared-risk revenue and receivable (including constraints, completion factors and the modified retrospective adjustments), income taxes and valuation of share-based

compensation. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, and makes adjustments in accordance with U.S. GAAP when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ materially from those estimates and assumptions.

Reclassifications

Certain amounts disclosed in prior period financial statements have been reclassified to conform to the current period presentation. These reclassifications had no effect on the Company's reported revenue, net income, cash flows or total assets.

Cash and Cash Equivalents

The Company's cash and cash equivalents primarily consist of money market funds and certificates of deposit. The Company considers all highly liquid investments that are both readily convertible into known amounts of cash and mature within ninety days from their date of purchase to be cash equivalents.

The Company maintains its cash in deposit accounts with several banks, which at times may exceed the insured limits of the Federal Deposit Insurance Corporation ("FDIC"). The Company believes it is not exposed to any significant credit risk with respect to its cash, cash equivalents and restricted cash. As of September 30, 2018, the Company's deposit accounts with banks exceeded the FDIC's insured limit by approximately \$146.3 million. The Company has not experienced any losses to date and performs ongoing evaluations of these financial institutions to limit the Company's concentration of risk exposure.

Restricted Cash

At times, APC is required to maintain a reserve fund by certain health plans, which are held in certificate of deposit accounts with initial maturities of six months from the date of purchase and interest rates ranging from 0.05% to 0.10%. Restricted cash also consists of cash held as collateral to secure standby letters of credits as required by certain contracts. As of September 30, 2018 and December 31, 2017, there was \$4,218,176 and \$18,005,661, respectively, included in restricted cash short-term in the accompanying condensed consolidated balance sheets. Approximately \$18,000,000 of such restricted cash as of December 31, 2017 was related to an amount that, as a result of the Merger between ApolloMed and NMM (see Note 3), will be held in an escrow account for distribution to former NMM shareholders. As of September 30, 2018, \$13,783,799 of dividends were paid to former NMM shareholders, with the remaining balance of \$4,216,201 to be distributed in the fourth quarter of 2018 (see Note 11).

Receivables

The Company's receivables are comprised of accounts receivable, capitation and claims receivable, risk pool settlements and incentive receivables, management fee income and other receivables. Accounts receivable are recorded and stated at the amount expected to be collected.

Capitation and claims receivable relate to a health plan's capitation, which is received by the Company in the month following the month of service. Risk pool settlements and incentive receivables mainly consist of the Company's full risk pool receivable that is recorded in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 606 (see Note 13). Other receivables include fee-for-services ("FFS") reimbursement for patient care, certain expense reimbursements, transportation reimbursements from hospitals and stop loss insurance premium reimbursements from IPAs.

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

Amounts are recorded as a receivable when the Company is able to determine amounts receivable under applicable contracts and/or agreements based on information provided and collection is reasonably likely to occur. The Company continuously monitors its collections of receivables and its policy is to write off receivables when they are determined to be uncollectible. The Company has not incurred credit losses related to receivables. As of September 30, 2018 and December 31, 2017, the Company recorded an allowance for doubtful accounts of \$719,938 and \$407,953, respectively.

Concentrations of Risks

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

**For the
Three
Months
Ended
September
30,
2018 2017**

Payor A	15.7 %	13.5 %
Payor B	22.6 %	14.9 %
Payor C	* %	10.2 %
Payor D	14.8 %	10.0 %

*Less than 10% of total net revenues

**For the Nine
Months
Ended
September
30,
2018 2017**

Payor A	14.0 %	13.3 %
Payor B	19.2 %	18.6 %
Payor C	* %	11.3 %
Payor D	14.0 %	11.5 %

*Less than 10% of total net revenues

The Company had major payors that contributed to the following percentage of receivables before the allowance for doubtful accounts:

	As of September 30, 2018		As of December 31, 2017	
Payor E	19.6	%	23.8	%
Payor F	48.8	%	30.5	%

Fair Value Measurements of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, fiduciary cash, restricted cash, investment in marketable securities, receivables, loans receivable, derivative asset (warrants), accounts payable, certain accrued expenses, capital lease obligations, bank loan and the line of credit. The carrying values of the financial instruments classified as current in the accompanying consolidated balance sheets are considered to be at their fair values, due to the short maturity of these instruments. The carrying amounts of the loan receivables – long term, bank loan, capital lease obligations and line of credit approximate fair value as they bear interest at rates that approximate current market rates for debt with similar maturities and credit quality.

FASB ASC 820, *Fair Value Measurement* ("ASC 820"), applies to all financial assets and financial liabilities that are measured and reported on a fair value basis and requires disclosure that establishes a framework for measuring fair value and expands disclosure about fair value measurements. ASC 820 establishes a fair value hierarchy for disclosures of the inputs to valuations used to measure fair value.

This hierarchy prioritizes the inputs into three broad levels as follows:

Level 1 —Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that can be accessed at the measurement date.

Level 2 —Inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (i.e., interest rates and yield curves), and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).

Level 3 —Unobservable inputs that reflect assumptions about what market participants would use in pricing the asset or liability. These inputs would be based on the best information available, including the Company's own data.

The carrying amounts and fair values of the Company's financial instruments as of September 30, 2018 are presented below:

	Fair Value Measurements			Total
	Level 1	Level 2	Level 3	
Assets				
Money market funds*	\$ 87,479,604	\$ -	\$ -	\$87,479,604
Marketable securities – certificates of deposit	1,811,515	-	-	1,811,515
Marketable securities – equity securities	75,787	-	-	75,787
Total	\$ 89,366,906	\$ -	\$ -	\$89,366,906

The carrying amounts and fair values of the Company's financial instruments as of December 31, 2017 are presented below:

	Fair Value Measurements			Total
	Level 1	Level 2	Level 3	
Assets				
Money market funds*	\$ 41,231,405	\$ -	\$ -	\$41,231,405
Marketable securities – certificates of deposit	1,057,090	-	-	1,057,090
Marketable securities – equity securities	86,005	-	-	86,005
Total	\$ 42,374,500	\$ -	\$ -	\$42,374,500

*Included in cash and cash equivalents

There were no Level 3 inputs measured on a recurring basis for the nine months ended September 30, 2018. The following summarizes activity of Level 3 inputs measured on a recurring basis for the three and nine months ended September 30, 2017:

	Derivative Assets (Warrants)
Balance at July 1, 2017	\$ 5,466,665
Change in fair value of warrants	(406,665)
Balance at September 30, 2017	\$ 5,060,000

**Derivative
Assets
(Warrants)**

Balance at January 1, 2017	\$ 5,338,886
Change in fair value of warrants	(278,886)
Balance at September 30, 2017	\$ 5,060,000

The fair value of the warrant derivatives of approximately \$5.1 million at September 30, 2017 was estimated using the Black-Scholes valuation model, using the following inputs: term of 3.04 – 3.50 years, risk free rate of 1.62%, no dividends, volatility of 38.72% - 39.87%, share price of \$9.75 per share based on the trading price of ApolloMed's common stock adjusted for a marketability discount, and a 0% probability of redemption of the warrant shares issued along with the shares of ApolloMed's convertible preferred stock issued in the financing.

There have been no changes in Level 1, Level 2, or Level 3 classification and no changes in valuation techniques for these assets for the nine months ended September 30, 2018 and 2017.

Intangible Assets and Long-Lived Assets

Intangible assets with finite lives include network-payor relationships, management contracts and member relationships and are stated at cost, less accumulated amortization and impairment losses. These intangible assets are amortized on the accelerated method using the discounted cash flow rate.

Intangible assets with finite lives also include a patent management platform, as well as trade names and trademarks, whose valuations were determined using the cost to recreate method and the relief from royalty method, respectively. These assets are stated at cost, less accumulated amortization and impairment losses, and are amortized using the straight-line method.

Finite-lived intangibles and long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the expected future cash flows from the use of such assets (undiscounted and without interest charges) are less than the carrying value, a write-down would be recorded to reduce the carrying value of the asset to its estimated fair value. Fair value is determined based on appropriate valuation techniques. The Company determined that there was no impairment of its finite-lived intangible or long-lived assets during the nine months ended September 30, 2018 and 2017.

Goodwill and Indefinite-Lived Intangible Assets

Under the ASC 350, *Intangibles – Goodwill and Other* (“ASC 350”), goodwill and indefinite-lived intangible assets are reviewed at least annually for impairment.

At least annually, at the Company’s fiscal year end of December 31, management assesses whether there has been any impairment in the value of goodwill by first comparing the fair value to the net carrying value of the reporting unit. The Company has determined it has four reporting units, which are comprised of (1) provider services, (2) management services, (3) IPA, and (4) ACO. If the carrying value exceeds its estimated fair value, a second step is performed to compute the amount of the impairment. An impairment loss is recognized if the implied fair value of the asset being tested is less than its carrying value. In this event, the asset is written down accordingly. The fair values of goodwill are determined using valuation techniques based on estimates, judgments and assumptions that management believes are appropriate in the circumstances.

At least annually, indefinite-lived intangible assets are tested for impairment. Impairment for intangible assets with indefinite lives exists if the carrying value of the intangible asset exceeds its fair value. The fair values of indefinite-lived intangible assets are determined using valuation techniques based on estimates, judgments and assumptions management believes are appropriate in the circumstances. The Company determined that there was no impairment of its goodwill or indefinite-lived intangible assets during the nine months ended September 30, 2018 and 2017.

Investments in Other Entities - Equity Method

The Company accounts for certain investments using the equity method of accounting when it is determined that the investment provides the Company with the ability to exercise significant influence, but not control, over the investee. Significant influence is generally deemed to exist if the Company has an ownership interest in the voting stock of the investee of between 20% and 50%, although other factors, such as representation on the investee’s board of directors, are considered in determining whether the equity method of accounting is appropriate. Under the equity method of accounting, the investment, originally recorded at cost, is adjusted to recognize the Company’s share of net earnings or losses of the investee and is recognized in the accompanying consolidated statements of income under “Income (loss) from equity method investments” and also is adjusted by contributions to and distributions from the investee. Equity method investments are subject to impairment evaluation. No impairment loss was recorded on equity method investments for the three and nine months ended September 30, 2018 and 2017.

Medical Liabilities

APC, APAACO and MMG are responsible for integrated care that the associated physicians and contracted hospitals provide to its enrollees. APC, APAACO and MMG provide integrated care to HMOs, Medicare and Medi-Cal enrollees through a network of contracted providers under sub-capitation and direct patient service arrangements. Medical costs for professional and institutional services rendered by contracted providers are recorded as cost of services expenses in the accompanying consolidated statements of income.

An estimate of amounts due to contracted physicians, hospitals, and other professional providers is included in medical liabilities in the accompanying consolidated balance sheets. Medical liabilities include claims reported as of the balance sheet date and estimates of IBNR claims. Such estimates are developed using actuarial methods and are based on numerous variables, including the utilization of health care services, historical payment patterns, cost trends, product mix, seasonality, changes in membership, and other factors. As APAACO's NGACO program is new and sufficient claims history is not available, the medical liabilities for the NGACO program are estimated and recorded at 100% of the revenue less actual claims processed for or paid to in-network providers (after taking into account the average discount negotiated with the in-network providers). The Company plans to use the traditional lag models as the claims history matures. The estimation methods and the resulting reserves are periodically reviewed and updated. Many of the medical contracts are complex in nature and may be subject to differing interpretations regarding amounts due for the provision of various services. Such differing interpretations may not come to light until a substantial period of time has passed following the contract implementation.

Revenue Recognition

On January 1, 2018, the Company adopted the new revenue recognition standard Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)", using the modified retrospective method. Modified retrospective adoption requires entities to apply the standard retrospectively to the most current period presented in the financial statements, requiring the cumulative effect of the retrospective application as an adjustment to the opening balance of retained earnings and noncontrolling interests at the date of initial application. Revenue from substantially all of the Company's contracts with customers continues to be recognized over time as services are rendered. The 2017 comparative information has not been restated and continues to be reported under the accounting standards in effect for that period. Refer to Note 13 - Revenue Recognition for further details.

Income Taxes

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

established when necessary to reduce deferred tax assets to amounts expected to be realized.

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

Share-Based Compensation

The Company maintains a stock-based compensation program for employees, non-employees, directors and consultants. The value of share-based awards such as options is recognized as compensation expense on a cumulative straight-line basis over the vesting terms of the awards, adjusted for expected forfeitures. At times, the Company issues shares of its common stock to its employees, directors and consultants, which shares may be subject to the Company's repurchase right (but not obligation) that lapses based on performance of services in the future.

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

Basic and Diluted Earnings Per Share

Basic earnings per share ("EPS") is computed by dividing net income attributable to holders of the Company's common stock by the weighted average number of shares of common stock outstanding during the periods presented. Diluted earnings per share is computed using the weighted average number of shares of common stock outstanding plus the effect of dilutive securities outstanding during the periods presented, using the treasury stock method. Refer to Note 10 for a discussion of shares treated as treasury shares for accounting purposes.

The basic EPS for the comparative period (the three and nine months ended September 30, 2017) before the closing of the Merger (see Note 3) presented in the condensed consolidated financial statements was calculated by dividing (a) by (b):

- a) The income of the legal acquiree (NMM) attributable to holders of the Company's common stock in such period.
- b) The legal acquiree's historical weighted average number of shares of common stock outstanding multiplied by the exchange ratio established in the Merger.

Noncontrolling Interests

The Company consolidates entities in which the Company has a controlling financial interest. The Company consolidates subsidiaries in which the Company holds, directly or indirectly, more than 50% of the voting rights, and VIEs in which the Company is the primary beneficiary. Noncontrolling interests represent third-party equity ownership interests (including certain VIEs) in the Company's consolidated entities. The amount of net income attributable to noncontrolling interests is disclosed in the consolidated statements of income.

Mezzanine Equity

Pursuant to APC's shareholder agreements, in the event of a disqualifying event, as defined in the agreements, APC could be required to repurchase the shares from the respective shareholders based on certain triggers outlined in the shareholder agreements. As the redemption feature of the shares is not solely within the control of APC, the equity of APC does not qualify as permanent equity and has been classified as mezzanine or temporary equity. Accordingly, the Company recognizes noncontrolling interests in APC as mezzanine equity in the condensed consolidated financial statements.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09"). ASU 2014-09 and other subsequent revisions amend the guidance for revenue recognition to replace numerous, industry specific requirements and converges areas under this topic with those of the International Financial Reporting Standards. The ASU implements a five-step process for customer contract revenue recognition that focuses on transfer of control, as opposed to transfer of risk and rewards. The amendment also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenues and cash flows from contracts with customers. Other major provisions include the capitalization and amortization of certain contract costs, ensuring the time value of money is considered in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. Entities can transition to the standard either retrospectively or as a cumulative-effect adjustment as of the date of adoption. The Company adopted ASU 2014-09 on January 1, 2018. Refer to Note 13 "*Revenue Recognition*", for further details.

In January 2016, the FASB issued ASU No. 2016-01, "Financial Instruments - Overall (Topic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities" ("ASU 2016-01"). ASU 2016-01 addresses certain aspects of recognition, measurement, presentation and disclosures of financial instruments including the requirement to measure certain equity investments at fair value with changes in fair value recognized in net income. The Company adopted ASU 2016-01 on January 1, 2018. The adoption of ASU 2016-01 did not have a material impact on the Company's condensed consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)" ("ASU 2016-02"). Under ASU 2016-02, lessees will recognize a right to use and lease liability for all leases (with the exception of short-term leases defined as those with an initial term of twelve months or less). At the commencement date, the lessee's lease liability is measured

as the discounted lease payments of the non-cancellable term of the lease. The corresponding right to use asset represents the lessee's right to use, or control the use of, a specified asset for the lease term. Lessor accounting for operating leases under ASU No. 2016-02, inclusive of that for subleases making the entity what is referred to as an intermediate lessor, is largely unchanged from current guidance requiring the recognition of lease payments as income over the lease-term on a straight-line or other rational and systematic basis in which the benefit is expected to be derived from the use of the underlying asset.

In July 2018, the FASB issued ASU No. 2018-11. The amendments in this update provide entities with an additional (and optional) transition method to adopt the new lease standard. Under this new transition method, an entity may recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption resulting in the comparative periods contained in the financial statements being presented in accordance with Topic 840. The Company has not yet determined whether to apply this transition method or apply those previously contained in ASC 842.

During the period ended September 30, 2018, the Company continues to work with the assigned project team to prepare the Company for the implementation of ASC 842 and assess the impact on the Company's financial statements upon adoption. As of the date of this filing, the Company's lease project team has completed a preliminary analysis of the Company's contracts that are believed to contain components of a lease in conjunction with the applicable implementation practical expedients as promulgated by ASU 2016-02. This analysis included, among other supplemental procedures, the following:

a. The Company performed an assessment of its existing and expired leases and determined the proper classification of its leases as operating or capital leases. In accordance with the applicable practical expedient, the Company did not reassess existing and expired leases that may require reclassification under ASC 842.

b. The Company has determined to apply the guidance of ASC 842 to each of its individual operating leases and not apply what is known as the portfolio approach.

c. The Company has determined that the twelve-month hindsight practical expedient allowing for certain leases to be scoped out of ASC 842 does not apply to the Company's existing and expired leases. As a result, the Company does not expect to apply this practical expedient.

d. The Company has performed an analysis of the lease terms of each lease at the commencement date for its existing and expired operating leases, considering the likelihood of the exercise of termination and extension options.

e. The Company has performed an analysis of the discount rate or rates to be applied in the determination of the total lease liability to be recognized, also forming the basis for the recognition of the applicable right to use assets, on the implementation date. The review of the Company's existing and expired leases did not result in the identification of supportable implicit interest rates within the contracts. As a result, the Company intends to use its incremental borrowing rate for the discount rate used in its lease liability calculations. The Company has not yet completed its discount rate analysis and is still gathering information and determining whether to apply a single discount rate to all of its existing and expired leases or apply various interest rates based on the Company's incremental borrowing rate near the lease commencement date.

Based on the preliminary analysis performed above, the Company expects a significant portion of the recognition impact of the adoption of ASC 842 to be included in the applicable cumulative retained earnings adjustment on the date of adoption presented in the quarter ended March 31, 2019. The Company expects to complete its implementation and adoption procedures prior to the filing of its annual report on Form 10-K for the year ending December 31, 2018.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments-Credit Losses (Topic 326)-Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"). The new standard requires entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. ASU 2016-13 will become effective for fiscal years beginning after December 15, 2019, with early adoption permitted. The Company is currently evaluating the impact ASU 2016-13 will have on the condensed consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, “Statement of Cash Flows (Topic 230) – Classification of Certain Cash Receipts and Cash Payments” (“ASU 2016-15”). This ASU provides clarification regarding how certain cash receipts and cash payments are presented and classified in the statement of cash flows. This ASU addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. The issues addressed in this ASU that will affect the Company are classifying debt prepayments or debt extinguishment costs and contingent consideration payments made after a business combination. This update is effective for annual and interim periods beginning after December 15, 2017, and interim periods within that reporting period. The Company adopted ASU 2016-15 on January 1, 2018. The adoption of ASU 2016-15 did not have a material impact on the Company’s condensed consolidated financial statements.

In December 2016, the FASB issued ASU No. 2016-18, “Statement of Cash Flows (Topic 230) – Restricted Cash” (“ASU 2016-18”). The amendments in ASU 2016-18 require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The Company adopted ASU 2016-18 on January 1, 2018. As a result of adopting ASU 2016-18, the primary impact to the condensed consolidated statements of cash flows relates to including amounts generally described as restricted cash in cash and cash equivalents when reconciling beginning-of-period and end-of-period total amounts shown on the statements of cash flows. Also, prior period amounts in the statement of cash flows for the nine months ended September 30, 2017 have been retrospectively adjusted to reflect the adoption of ASU 2016-18.

In January 2017, the FASB issued ASU No. 2017-01, “Business Combinations (Topic 805): Clarifying the Definition of a Business” (“ASU 2017-01”). This ASU provides a screen to determine when a set is not a business, which requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business, which reduces the number of transactions that need to be further evaluated. If the screen is not met, this ASU requires that to be considered a business, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output and also remove the evaluation of whether a market participant could replace missing elements. The Company adopted ASU 2017-01 on January 1, 2018. The adoption of ASU 2017-01 did not have a material impact on the Company’s condensed consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, “Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment” (“ASU 2017-04”). This ASU eliminates Step 2 from the goodwill impairment test if the carrying amount exceeds the fair value of a reporting unit and also eliminated the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. Therefore, the same impairment assessment applies to all reporting units. An entity is required to disclose the amount of goodwill allocated to each reporting unit with a zero or negative carrying amount of net assets. This update is effective for annual and interim periods beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is currently assessing the impact the adoption of ASU 2017-04 will have on the Company’s condensed consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, “Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting” (“ASU 2017-09”), to clarify which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. This ASU is effective for annual periods beginning after December 15, 2017. ASU 2017-09 will be applied prospectively when changes to the terms or conditions of a share-based payment award occur. The Company adopted ASU 2017-01 on January 1, 2018. The adoption of ASU 2017-09 did not have a material impact on the Company’s condensed consolidated financial statements.

In July 2017, the FASB issued ASU No. 2017-11, “Earnings Per Share (Topic 260): Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815): (Part I) Accounting for Certain Financial Instruments with Down Round Features, (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Non-controlling Interests with a Scope Exception” (“ASU 2017-11”). The amendments in Part I of this Update change the classification analysis of certain equity-linked financial instruments (or embedded features) with down round features. When determining whether certain financial instruments should be classified as liabilities or equity instruments, a down round feature no longer precludes equity classification when assessing whether the instrument is indexed to an entity’s own stock. The amendments also clarify existing disclosure requirements for equity-classified instruments. The amendments in Part I of this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted, including adoption in any interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The Company is currently assessing the impact the adoption of ASU 2017-11 will have on the Company’s condensed consolidated financial statements.

In October 2018, the FASB issued ASU No. 2018-17, “Consolidation (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities” (“ASU 2018-17”). This ASU reduces the cost and complexity of financial reporting associated with consolidation of variable interest entities (VIEs). A VIE is an organization in which consolidation is not based on a majority of voting rights. The new guidance supersedes the private company alternative for common control leasing arrangements issued in 2014 and expands it to all qualifying common control arrangements. The amendments in this ASU are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The Company is currently assessing the impact the adoption of ASU 2018-17 will have on the Company’s condensed consolidated financial statements.

With the exception of the new standards discussed above, there have been no other new accounting pronouncements that have significance, or potential significance, to the Company’s financial position, results of operations and cash flows.

3. Mergers and Acquisitions

On December 8, 2017, (the “Effective Time”) the Merger of ApolloMed’s wholly-owned subsidiary, Apollo Acquisition Corp., with and into NMM as the surviving entity was completed, in accordance with the terms and conditions of the Agreement and Plan of Merger, dated as of December 21, 2016 (as amended on March 30, 2017 and October 17, 2017), by and among the Company, Merger Sub, NMM and Kenneth Sim, M.D., in his capacity as the NMM shareholders’ representative. As a result of the Merger, NMM now is a wholly-owned subsidiary of ApolloMed and former NMM shareholders own a majority of the issued and outstanding common stock of the Company. Both companies are considered to be a business under the guidance outlined in ASC 805, Business Combinations. The combined company operates under the Apollo Medical Holdings name. NMM is the larger entity in terms of assets, revenues and earnings. In addition, as of the closing of the Effective Time, the majority of the board of directors of the combined company was comprised of former NMM directors and directors nominated for election by NMM. Accordingly, ApolloMed is considered to be the legal acquirer (and accounting acquiree), NMM is considered to be the accounting acquirer (and legal acquiree), and the merger transaction is considered a reverse acquisition. As a result, as of the Effective Time, NMM’s historical results of operations replaced ApolloMed’s historical results of operations for all periods prior to the Merger, and the results of operations of both companies will be included in the Company’s financial statements for all periods following the Merger. As of the Effective Time, the Company’s board of directors approved a change in the Company’s fiscal year end from March 31 to December 31, to correspond with NMM’s fiscal year end prior to the Merger.

Pursuant to the Merger Agreement, at the Effective Time, each issued and outstanding share of NMM common stock converted into the right to receive (i) such number of fully paid and nonassessable shares of ApolloMed’s common stock that resulted in the NMM shareholders having a right to receive an aggregate number of shares of ApolloMed’s common stock that represented 82% of the total issued and outstanding shares of ApolloMed common stock immediately following the Effective Time, with no NMM dissenting shareholder interests as of the Effective Time (the “exchange ratio”), plus (ii) an aggregate of 2,566,666 shares of ApolloMed’s common stock, with no NMM dissenting shareholder interests as of the Effective Time, and (iii) common stock warrants to purchase a pro-rata portion of an aggregate of 850,000 shares of common stock of ApolloMed, exercisable at \$11.00 per share and warrants to purchase an aggregate of 900,000 shares of common stock of ApolloMed at \$10.00 per share. At the Effective Time, pre-Merger ApolloMed stockholders held their existing shares of ApolloMed’s common stock. At the Effective Time, ApolloMed held back 10% of the total number of shares of ApolloMed’s common stock issuable to pre-Merger NMM shareholders in the Merger to secure indemnification of ApolloMed and its affiliates under the Merger Agreement. Separately, indemnification of pre-Merger NMM shareholders under the Merger Agreement was made by the issuance by ApolloMed to pre-Merger NMM shareholders of new additional shares of common stock (capped at the same number of shares of ApolloMed’s common stock as are subject to the holdback for the indemnification of ApolloMed). These holdback shares will be held for a period of up to 24 months after the closing of the Merger (to be distributed on a pro-rata basis to former NMM shareholders), during which ApolloMed may seek indemnification for any breach of, or noncompliance with, any provision of the Merger agreement, by NMM. Half of these shares will be issued on the first and second anniversary of the Effective Time respectively.

For purposes of calculating the exchange ratio, (A) the aggregate number of shares of ApolloMed common stock held by the NMM shareholders immediately following the Effective Time excluded (i) any shares of ApolloMed common stock owned by NMM shareholders immediately prior to the Effective Time, (ii) the Series A warrant and Series B warrant issued by ApolloMed to NMM to purchase ApolloMed common stock (the “ApolloMed Warrants”) and (iii) any shares of ApolloMed common stock issued or issuable to NMM shareholders pursuant to the exercise of the ApolloMed Warrants, and (B) the total number of issued and outstanding shares of ApolloMed common stock immediately following the Effective Time excluded 520,081 shares of ApolloMed common stock issued or issuable under a Convertible Promissory Note to Alliance Apex, LLC (“Alliance”) for \$4.99 million and accrued interest pursuant to the Securities Purchase Agreement between ApolloMed and Alliance dated as of March 30, 2017.

The consideration for the transaction was 18% of the total issued and outstanding shares of ApolloMed common stock, or 6,109,205 shares (immediately following the Merger).

In addition, the fair value of NMM's 50% interest in APAACO, an entity that was owned 50% by ApolloMed and 50% by NMM, was remeasured at fair value as of the Effective Time and added to the consideration transferred to ApolloMed as a result of NMM relinquishing its equity investment in APAACO in order to obtain control of ApolloMed. The fair value of NMM's noncontrolling interest in APAACO has been estimated to be \$5,129,000.

Total estimated purchase consideration consisted of the following:

Equity consideration (1)	\$61,092,050
Estimated fair value of ApolloMed preferred stock held by NMM (2)	19,118,000
Estimated fair value of NMM's noncontrolling interest in APAACO (3)	5,129,000
Estimated fair value of the outstanding ApolloMed stock options (4)	1,055,333
Total estimated purchase consideration	\$86,394,383

(1) Equity consideration

Immediately following the Effective Time, pre-Merger ApolloMed stockholders continued to hold an aggregate of 6,109,205 shares of ApolloMed common stock.

The equity consideration, which represents a portion of the consideration deemed transferred to the pre-Merger ApolloMed stockholders in the Merger, is calculated based on the number of shares of the combined company that the pre-Merger ApolloMed stockholders would own as of the closing of the Merger.

Number of shares of the combined company that would be owned by pre-Merger ApolloMed stockholders ⁽¹⁾	6,109,205
Multiplied by the price per share of ApolloMed's common stock ⁽²⁾	\$10.00
Equity consideration	\$61,092,050

⁽¹⁾ Represents the number of shares of the combined company that pre-Merger ApolloMed stockholders would own at closing of the Merger.

(2) Represents the closing price of ApolloMed's common stock on December 8, 2017.

(2) Estimated fair value of ApolloMed's preferred shares held by NMM

NMM currently owns all the shares of ApolloMed Series A preferred stock and Series B preferred stock, which was acquired prior to the Merger. As part of the Merger, the ApolloMed Series A preferred stock and Series B preferred stock is remeasured at fair value and included as part of the consideration transferred to ApolloMed. The fair value of the Series A preferred stock and Series B preferred stock is reflective of the liquidation preferences, claims of priority and conversion option values thereof. In aggregate, the Series A and Series B preferred stock were valued to be \$19,118,000. The valuation methodology was based on an Option Pricing Method ("OPM") which utilized the observable publicly traded common stock price in valuing the Series A preferred stock and the Series B preferred stock within the context of the capital structure of the Company. OPM assumptions included an expected term of 2 years, volatility rate of 37.9%, and a risk-free rate of 1.8%. The fair value of the liquidation preference for the Series A preferred stock and the Series B preferred stock was determined to be \$12,745,000 and the fair value of the conversion option was determined to be \$6,373,000 or an aggregate total fair value of \$19,118,000.

(3) Estimated fair value of NMM's 50% share of APA ACO Inc.

Prior to the Merger, APAACO was owned 50% by ApolloMed and 50% NMM. NMM's noncontrolling interest in APAACO has been remeasured at fair value as of the closing date and is added to the consideration transferred to ApolloMed as a result of NMM relinquishing its equity investment in APAACO in order to obtain control of ApolloMed. The fair value of NMM's noncontrolling interest in APAACO has been estimated to be \$5,129,000 using the discounted cash flow method and NMM recorded a gain on investment for the same amount to reflect the fair value of this investment prior to the Merger.

(4) Estimated fair value of the ApolloMed outstanding stock options

The estimated fair value of the outstanding ApolloMed stock options is included in consideration transferred in accordance with ASC 805. The outstanding ApolloMed stock options are expected to vest in conjunction with the Merger due to a pre-existing change-of-control provision associated with the awards. There is no future service requirement.

Under the acquisition method of accounting, the identifiable assets acquired and liabilities assumed of ApolloMed, the accounting acquiree, are recorded at the Merger date fair values and added to those of NMM, the accounting acquirer. The following table sets forth the preliminary allocation of the purchase consideration to the identifiable tangible and intangible assets acquired and liabilities assumed of ApolloMed and MMG (see “MMG Transaction” below), with the excess recorded as goodwill:

Assets acquired	
Cash and cash equivalents	\$36,367,555
Accounts receivable, net	7,261,588
Other receivables	3,211,028
Prepaid expenses	249,193
Property, plant and equipment, net	1,114,332
Restricted cash	745,220
Fair value of intangible assets acquired	14,984,000
Deferred tax assets	2,498,417
Other assets	217,241
Total assets acquired	\$66,648,574
Liabilities assumed	
Accounts payable and accrued liabilities	\$8,632,893
Medical liabilities	39,353,540
Line of credit	25,000
Convertible note payable, net	5,376,215
Convertible note payable - related party	9,921,938
Noncontrolling interest	3,142,000
Total liabilities assumed and noncontrolling interest	\$66,451,586
Net assets acquired	\$196,988
Goodwill	\$86,197,395

Goodwill is not deductible for tax purposes.

During the nine months ended September 30, 2018, goodwill related to the Merger increased by \$671,555 due to the \$868,000 increase in the estimated fair value of the outstanding ApolloMed stock options, which was partially offset

by the \$196,445 increase in the related deferred tax asset with a commensurate adjustment recorded to additional paid in capital. In addition, during the nine months ended September 30, 2018, goodwill and deferred tax assets decreased by \$914,011 resulting from an adjustment associated with the allocation of the Merger transaction costs. As a result, in aggregate, during the nine months ended September 30, 2018, goodwill decreased by \$242,456.

The purchase consideration and purchase price allocation are preliminary and subject to change as more information becomes available, which will be finalized as soon as practicable within the measurement period of no later than one year following the Effective Time of the Merger.

MMG Transaction

In conjunction with the Merger, ApolloMed sold to APC-LSMA all the issued and outstanding shares of capital stock of MMG. MMG has historically been included in the consolidated financial statements filed by ApolloMed. APC-LSMA agreed to pay \$100 in consideration for all the shares of MMG. As the transaction is between related parties, the purchase consideration of MMG reflected in the purchase price allocation was determined to be the fair value of MMG. MMG and AMM terminated the existing Management Services Agreement between them and APC-LSMA paid AMM \$400,000 as a termination payment on the Effective Time. APC-LSMA is consolidated by APC which in turn is consolidated by NMM, and as a result, the \$400,000 amount is eliminated upon consolidation.

Pro Forma Combined Historical Results

The pro forma combined historical results, as if ApolloMed had been acquired as of January 1, 2017, are estimated as follows (unaudited):

	Three Months Ended September 30, 2017
Net revenues	\$ 136,196,291
Net income attributable to Apollo Medical Holdings, Inc.	\$ 1,599,435
Weighted average common shares outstanding:	
Basic	33,601,022
Earnings per share:	
basic	\$0.05
Weighted average common shares outstanding:	
diluted	34,158,172
Earnings per share:	
diluted	\$0.05

	Nine Months Ended September 30, 2017
Net revenues	\$ 356,388,609
Net loss attributable to Apollo Medical Holdings, Inc.	\$(507,814)
Weighted average common shares outstanding:	
Basic	33,601,022
Earnings per share:	
basic	\$(0.02)
Weighted average common shares outstanding:	
diluted	33,601,022
Earnings per share:	
diluted	\$(0.02)

The pro forma information has been prepared for comparative purposes only and does not purport to be indicative of what would have occurred had the acquisition actually been made at such date, nor is it necessarily indicative of future operating results.

4. Intangible Assets, Net

At September 30, 2018, the Company's intangible assets, net, consisted of the following:

	Useful Life (Years)	Gross September 30, 2018	Accumulated Amortization	Net September 30, 2018
Indefinite Lived Assets:				
Medicare license	N/A	\$ 1,994,000	\$-	\$ 1,994,000
Amortized Intangible Assets:				
Network relationships	11-15	109,883,000	(45,485,494)	64,397,506
Management contracts	15	22,832,000	(6,863,192)	15,968,808
Member relationships	12	6,696,000	(978,876)	5,717,124
Patient management platform	5	2,060,000	(343,333)	1,716,667
Tradename/trademarks	20	1,011,000	(42,125)	968,875
		\$ 144,476,000	\$(53,713,020)	\$ 90,762,980

At December 31, 2017, the Company's intangible assets, net, consisted of the following:

	Useful Life (Years)	Gross December 31, 2017	Accumulated Amortization	Net December 31, 2017
Indefinite Lived Assets:				
Medicare license	N/A	\$ 1,994,000	\$-	\$ 1,994,000
Amortized Intangible Assets:				
Network relationships	11-15	109,883,000	(35,842,508)	74,040,492
Management contracts	15	22,832,000	(5,014,886)	17,817,114
Member relationships	12	6,696,000	(46,500)	6,649,500
Patient management platform	5	2,060,000	(34,336)	2,025,664
Tradename/trademarks	20	1,011,000	(4,212)	1,006,788
		\$ 144,476,000	\$(40,942,442)	\$ 103,533,558

Included in depreciation and amortization on the accompanying consolidated statements of income is amortization expense of \$4,164,056 and \$4,302,090 (excluding \$106,000 amortization expense for exclusivity incentives) for the three months ended September 30, 2018 and 2017, respectively, and \$12,770,578 and \$12,999,407 (excluding \$318,000 amortization expense for exclusivity incentives) for the nine months ended September 30, 2018 and 2017, respectively.

Future amortization expense is estimated to be as follows for the years ending December 31:

	Amount
2018 (remaining three months)	\$3,886,000
2019	14,480,000
2020	12,671,000
2021	10,961,000
2022	9,448,000
Thereafter	37,323,000
	\$88,769,000

5. Investments in Other Entities

Equity Method Investments

LaSalle Medical Associates

LaSalle Medical Associates (“LMA”) was founded by Dr. Albert Arteaga in 1996 and currently operates four neighborhood medical centers employing more than 120 dedicated healthcare professionals, treating children, adults and seniors in San Bernardino County. LMA’s patients are primarily served by Medi-Cal. LMA accepts Blue Cross, Blue Shield, Molina, Care 1st, Health Net and Inland Empire Health Plan. LMA is also an IPA of independently contracted doctors, hospitals and clinics, delivering high quality care to more than 435,000 patients in Fresno, Kings, Los Angeles, Madera, Riverside, San Bernardino and Tulare Counties. During 2012, APC-LSMA and LMA entered into a share purchase agreement whereby APC-LSMA invested \$5,000,000 for a 25% interest in LMA’s IPA line of business. NMM has a management services agreement with LMA. APC accounts for its investment in LMA under the equity method as APC has the ability to exercise significant influence, but not control over LMA’s operations. For the three months ended September 30, 2018 and 2017, APC recorded income from this investment of \$171,136 and \$44,906, respectively, in the accompanying condensed consolidated statements of income. For the nine months ended September 30, 2018 and 2017, APC recorded (loss) income from this investment of \$(785,348) and \$558,460, respectively, in the accompanying condensed consolidated statements of income. The accompanying condensed consolidated balance sheets include the related investment balance of \$8,667,419 and \$9,452,767 at September 30, 2018 and December 31, 2017, respectively.

LMA’s summarized balance sheets at September 30, 2018 and December 31, 2017 and summarized statements of operations for the nine months ended September 30, 2018 and 2017 with respect to its IPA line of business are as follows:

Balance Sheets

	September 30, 2018	December 31, 2017
Assets		
Cash and cash equivalents	\$ 25,746,368	\$ 21,065,105
Receivables, net	2,802,290	2,433,116
Other current assets	2,101,110	1,565,606

Loan receivable	1,250,000	1,250,000
Restricted cash	667,414	662,109
Total assets	\$ 32,567,182	\$ 26,975,936

Liabilities and Stockholders' Equity

	September 30, 2018	December 31, 2017
Current liabilities	\$ 29,085,975	\$ 20,353,337
Stockholders' equity	3,481,207	6,622,599
Total liabilities and stockholders' equity	\$ 32,567,182	\$ 26,975,936

Statements of Operations

	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Revenues	\$ 177,696,760	\$ 147,567,476
Expenses	180,445,655	145,333,637
Net (loss) income	\$ (2,748,895)	\$ 2,233,839

Pacific Medical Imaging and Oncology Center, Inc.

PMIOC was incorporated in 2004 in the state of California. PMIOC provides comprehensive diagnostic imaging services using state-of-the-art technology. PMIOC offers high quality diagnostic services such as MRI/MRA, PET/CT, CT, nuclear medicine, ultrasound, digital x-rays, bone densitometry and digital mammography at its facilities.

In July 2015, APC-LSMA and PMIOC entered into a share purchase agreement whereby APC-LSMA invested \$1,200,000 for a 40% ownership in PMIOC.

APC and PMIOC have an Ancillary Service Contract together whereby PMIOC provides covered services on behalf of APC to enrollees of the plans of APC. Under the Ancillary Service Contract, APC paid PMIOC fees for the three and nine months ended September 30, 2018 and 2017 of approximately \$0.7 million and \$0.6 million, respectively, and of approximately \$1.9 million and \$1.7 million, respectively. APC accounts for its investment in PMIOC under the equity method of accounting as APC has the ability to exercise significant influence, but not control over PMIOC's operations. During the three months ended September 30, 2018 and 2017, APC recorded income from this investment of \$4,990 and \$52,157 respectively, in the accompanying condensed consolidated statements of income. During the nine months ended September 30, 2018 and 2017, APC recorded income from this investment of \$41,571 and \$161,776, respectively, in the accompanying condensed consolidated statements of income. The accompanying condensed consolidated balance sheets include the related investment balance of \$1,442,264 and \$1,400,693 at September 30, 2018 and December 31, 2017, respectively.

Universal Care, Inc.

UCI is a privately held health plan that has been in operation since 1985 in order to help its members through the complexities of the healthcare system. UCI holds a license under the California Knox-Keene Health Care Services Plan Act ("Knox-Keene Act") to operate as a full-service health plan. UCI contracts with CMS under the Medicare Advantage Prescription Drug Program.

On August 10, 2015, UCAP, an entity solely owned 100% by APC with APC's executives, Dr. Thomas Lam, Dr. Pen Lee and Dr. Kenneth Sim, as designated managers of UCAP, purchased from UCI 100,000 shares of UCI class A-2 voting common stock (comprising 48.9% of the total outstanding UCI shares, but 50% of UCI's voting common stock) for \$10,000,000. APC accounts for its investment in UCI under the equity method of accounting as APC has the ability to exercise significant influence, but not control over UCI's operations. During the three months ended September 30, 2018 and 2017, the Company recorded losses from this investment of \$4,646,389 and \$1,891,302,

respectively, in the accompanying condensed consolidated statements of income. During the nine months ended September 30, 2018 and 2017, the Company recorded losses from this investment of \$2,934,664 and \$1,648,711, respectively, in the accompanying condensed consolidated statements of income. The accompanying condensed consolidated balance sheets include the related investment balance of \$5,674,791 and \$8,609,455 at September 30, 2018 and December 31, 2017, respectively.

In 2015, APC advanced \$5,000,000 on behalf of UCAP to UCI for working capital purposes. On June 29, 2018, APC advanced an additional \$2,500,000. These subordinated loans accrue interest at the prime rate plus 1%, or 6.25% and 5.50%, as of September 30, 2018 and December 31, 2017, respectively, with interest to be paid monthly. The repayment schedule of the original principal of \$5,000,000 is based on certain contingent criteria, and accordingly, the entire note receivable has been classified under loans receivable - related parties on the condensed consolidated balance sheets in the amount of \$7,500,000 and \$5,000,000 as of September 30, 2018 and December 31, 2017, respectively.

UCI's balance sheets at September 30, 2018 and December 31, 2017 and statements of income for the nine months ended September 30, 2018 and 2017 are as follows:

Balance Sheets

	September 30, 2018	December 31, 2017
<u>Assets</u>		
Cash	\$24,217,764	\$21,872,894
Receivables, net	33,462,584	18,618,760
Other current assets	19,086,431	13,021,520
Other assets	3,396,798	3,754,470
Property and equipment, net	2,347,978	1,576,621
 Total assets	 \$82,511,555	 \$58,844,265

Liabilities and Stockholders' Deficit

	September 30, 2018	December 31, 2017
Current liabilities	\$79,113,015	\$54,421,532
Other liabilities	15,029,117	10,051,952
Stockholders' deficit	(11,630,577)	(5,629,219)
Total liabilities and stockholders' deficit	\$82,511,555	\$58,844,265

Statements of Operations

	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Revenues	\$240,633,955	\$138,189,092
Expenses	246,765,335	140,664,653
Loss before (benefit) provision for income taxes	(6,131,380)	(2,475,561)
(Benefit) provision for income taxes	(130,023)	896,038
Net loss	\$(6,001,357)	\$(3,371,599)

Accountable Health Care, IPA

Accountable Health Care IPA ("Accountable") is a California professional medical corporation that has served the local community in the greater Los Angeles County area through a network of physicians and health care providers for more than 20 years. Accountable currently has a network of over 450 primary and 1700 specialty care physicians, and eight community and regional hospital medical centers that provide quality health care services to more than 180,000 members of seven federally qualified health plans and multiple product lines, including Medi-Cal, Commercial, Medicare and Healthy Families.

On September 21, 2018, APC and NMM each exercised their option to convert their respective \$5.0 million loans into shares of Accountable capital stock (see Note 6). As a result, APC's \$5.0 million loan was converted into a 25% equity interest with the remaining \$5.0 million loan held by NMM to be converted into an equity interest that will be determined based on a third party valuation of Accountable's current enterprise value, which has not been completed as of the filing of this Report. APC accounts for its investment in Accountable under the equity method of accounting. During both the three and nine months ended September 30, 2018 the Company recorded losses from this investment of \$52,751 in the accompanying condensed consolidated statements of income. The accompanying condensed consolidated balance sheets include the related investment balance of \$4,947,249 at September 30, 2018.

Accountable's balance sheet at September 30, 2018 and statements of operations for the nine months ended September 30, 2018 are as follows:

Balance Sheets

	September 30, 2018
Assets	
Cash	\$5,420,001
Receivables, net	8,835,000
Other current assets	430,427
Other assets	900,007
Property and equipment, net	156,690
 Total assets	 \$15,742,125

Liabilities and Stockholders' Deficit

	September 30, 2018
Current liabilities	\$ 15,657,807
Other liabilities	18,500,000
Stockholders' deficit	(18,415,682)
 Total liabilities and stockholders' deficit	 \$ 15,742,125

Statements of Operations

	Nine Months Ended September 30, 2018
Revenues	\$ 72,866,663
Expenses	76,755,686
Loss before provision for income taxes	(3,889,023)
Provision for income taxes	800
Net loss*	\$ (3,889,823)

* APC's allocation of net loss commenced on September 21, 2018.

Diagnostic Medical Group

On May 14, 2016, David C.P. Chen M.D., Inc., a California professional corporation doing business as Diagnostic Medical Group ("DMG"), and David C.P. Chen M.D., individually and APC-LSMA, a designated shareholder

professional corporation formed on October 15, 2012, which is 100% owned by Dr. Thomas Lam (CEO of APC) and is controlled and consolidated by APC who is the primary beneficiary of this VIE, entered into a share purchase agreement whereby APC-LSMA acquired a 40% ownership interest in DMG for total cash consideration of \$1,600,000.

APC accounts for its investment in DMG under the equity method of accounting as APC has the ability to exercise significant influence, but not control over DMG's operations. For the three and nine months ended September 30, 2018 and 2017, APC recorded income from this investment of \$177,273 and \$317,921 and \$897,928 and \$878,325, respectively, in the condensed consolidated statements of income. The accompanying condensed consolidated balance sheets include the related investment balance of \$2,537,929 and \$1,847,411 as of September 30, 2018 and December 31, 2017, respectively.

Pacific Ambulatory Surgery Center, LLC

PASC, a California limited liability company, is a multi-specialty outpatient surgery center that is certified to participate in the Medicare program and is accredited by the Accreditation Association for Ambulatory Health Care. PASC has entered into agreements with organizations such as healthcare service plans, independent physician practice associations, medical groups and other purchasers of healthcare services for the arrangement of the provision of outpatient surgery center services to subscribers or enrollees of such health plans. On November 15, 2016, PASC and APC, entered into a membership interest purchase agreement whereby PASC sold 40% of its aggregate issued and outstanding membership interests to APC for total consideration of \$800,000.

In connection with the membership interest purchase agreement, PASC entered into a management services agreement with NMM, which requires the payment of management fees computed at predetermined percentage (as defined) of PASC revenues. The term of the management services agreement commenced on the effective date and extend for a period of 60 months thereafter, and may be extended in writing at the sole option of NMM for an additional period of 60 months following the expiration of the initial term and is automatically renewed for additional consecutive terms of three years unless terminated by either party. PASC shall not be permitted to terminate the management services agreement for any reason during the initial term and, if extended, the extended term.

APC accounts for its investment in PASC under the equity method of accounting as APC has the ability to exercise significant influence, but not control over PASC's operations. For the three and nine months ended September 30, 2018 and 2017, APC recorded income from this investment of \$130,685 and \$5,389 and \$260,045 and \$11,381, respectively, in the accompanying condensed consolidated statements of income. The accompanying condensed consolidated balance sheets include the related investment balance of \$853,243 and \$593,198 as of September 30, 2018 and December 31, 2017, respectively.

Equity Method Investment Summary

Investments in other entities – equity method consisted of the following:

	September 30, 2018	December 31, 2017
Universal Care, Inc.	\$5,674,791	\$8,609,455
LaSalle Medical Associates – IPA Line of Business	8,667,419	9,452,767
Diagnostic Medical Group	2,537,929	1,847,411
Pacific Medical Imaging & Oncology Center, Inc.	1,442,264	1,400,693
Pacific Ambulatory Surgery Center, LLC	853,243	593,198
Accountable Health Care IPA	4,947,249	-
	\$24,122,895	\$21,903,524

Joint Venture

In June 2018, College Street Investment LP, a California limited partnership (“CSI”), APC and NMM entered into an operating agreement to govern the limited liability company, 531 W. College, LLC and the conduct of its business, and to specify their relative rights and obligations. CSI, APC and NMM, each owns 50%, 25% and 25%, respectively, of member units based on initial capital contributions of \$16,673,839, \$8,336,920, and \$8,336,920, respectively.

An agreement of purchase and sale and joint escrow instructions (“Purchase Agreement”) with an effective date of April 10, 2018 was entered into between 531 W. College, LLC and Societe Francaise De Bienfaisance Mutuelle De Los Angeles, a California nonprofit corporation, pursuant to which 531 W. College LLC agreed to purchase a former hospital located in the City of Los Angeles. The total purchase price of such real estate is \$33,347,679. In June 2018, APC, NMM and AMHC Healthcare, Inc. on behalf of CSI, wired \$8,336,920, \$8,336,920 and \$16,673,839, respectively into an escrow account for the benefit of 531 W. College, LLC to purchase the hospital pursuant to the Purchase Agreement. The transaction closed on June 29, 2018. APC and NMM accounts for its investment in 531 W. College, LLC under the equity method of accounting as APC and NMM have the ability to exercise significant influence, but not control over the operations of this joint venture. APC and NMM’s investment is presented as an investment in joint venture-equity method in the accompanying condensed consolidated balance sheet as of September 30, 2018.

531 W. College LLC's balance sheet at September 30, 2018 is as follows:

Balance Sheet

	September 30, 2018
<u>Assets</u>	
Land and building	\$33,347,679
Total assets	\$33,347,679
<u>Liabilities and Members' Equity</u>	
Members' equity	\$33,347,679
Total liabilities and members' equity	\$33,347,679

Formation costs and other fees incurred for establishing the organization were not significant during the nine months ended September 30, 2018.

Investment in privately held entity that does not report net asset value per share

In May 2018, APC purchased 270,000 membership interests of MediPortal LLC, a New York limited liability company, for \$405,000 or \$1.50 per membership interest, which represented approximately 2.8% ownership. APC also received a 5-year warrant to purchase 270,000 membership interests. A 5-year option to purchase an additional 380,000 membership interests and a 5-year warrant to purchase 480,000 membership interests are contingent upon the portal completion date, which has not been completed as of September 30, 2018. As APC does not have the ability to exercise significant influence, and lacks control, over the investee, this investment is accounted for using a measurement alternative which allows the investment to be measured at cost, adjusted for observable price changes and impairments, with changes recognized in net income.

6. Loan Receivable

On October 9, 2017, NMM and APC-LSMA entered into an agreement with Accountable, Signal Health Solutions, Inc. (“Signal”), a California corporation and George M. Jayatilaka, M.D. (“Dr. Jay”), individually, whereby concurrent with the execution of the agreement, APC-LSMA extended a line of credit to Dr. Jay in the principal amount of \$10.0 million (“Dr. Jay Loan”) to fund the working capital needs of Accountable (\$5.0 million of which was funded by APC on behalf of APC-LSMA and the other \$5.0 million was funded by NMM to Dr. Jay). Interest on the Dr. Jay Loan accrues at a rate that is equal to the prime rate plus 1% (6.25% and 5.50% as of September 30, 2018 and December 31, 2017, respectively) and payable in monthly installments of interest only on the first day of each month until the date that is three years following the initial date of funding, at which time, all outstanding principal and accrued interest thereon shall be due and payable in full. The Dr. Jay Loan is not subordinated to any other indebtedness and is secured by a first-lien security interest in certain shares of Accountable owned by Dr. Jay. The outstanding balance as of September 30, 2018 and December 31, 2017 was \$5.0 million and \$10.0 million, respectively.

Concurrently with the funding of the Dr. Jay Loan, Dr. Jay loaned to Accountable the entire proceeds of the Dr. Jay Loan at the same interest rate and maturity date as the Dr. Jay Loan (“Dr. Jay-Accountable Subordinated Loan”). Repayment of the Dr. Jay-Accountable Subordinated Loan is subordinated to Accountable’s creditors in a manner acceptable to the California Department of Managed Health Care (“DMHC”).

At any time on or before the date that is one year following the initial funding date of the Dr. Jay Loan, APC-LSMA or its designee have the right, but not the obligation, to convert up to \$5.0 million of the outstanding principal amount into shares of Accountable’s capital stock. At any time after the date that is one year following the funding date, the Dr. Jay Loan may be prepaid at any time. Within three years following the initial funding of the Dr. Jay Loan, APC-LSMA or its designee shall have the right, but not the obligation, to convert the then outstanding principal amount into Accountable shares based on Accountable’s then-current valuation. On September 21, 2018, APC and NMM each exercised their option to convert their respective \$5.0 million loan into shares of Accountable capital stock. As a result, APC’s \$5.0 million loan was converted into a 25% equity interest with the remaining \$5.0 million

loan held by NMM to be converted into an equity interest that will be determined based on a third party valuation of Accountable's current enterprise value, which has not been completed as of the filing date of this Report. Accordingly, as of September 30, 2018, NMM's \$5.0 million loan is reflected as Loan receivable in the accompanying condensed consolidated balance sheet (see Note 5).

Subsequent to the funding of the Dr. Jay Loan, to the extent needed by Accountable for working capital needs as determined by APC-LSMA, APC-LSMA will extend an additional line of credit in the principal amount up to \$8.0 million. The funding mechanism, interest rate and maturity date of such additional line of credit shall be the same as the Dr. Jay Loan and additional collateral security in Accountable's issued and outstanding shares will be required.

As a condition of funding the Dr. Jay Loan, Accountable entered into a ten-year management service agreement with NMM on October 27, 2017, to commence on the termination of Accountable's previously existing management agreement with MedPoint Management to be effective on December 1, 2017. Under the management service agreement, NMM is responsible for managing 100% of all health plan membership assigned and delegated to Accountable, and all hospital risk pools. The management service agreement requires the payment of IPA and hospital risk pool management fees as set forth therein.

Concurrent with the initial funding of the Dr. Jay Loan, the Accountable Board of Directors shall be automatically reconstituted to be comprised of two directors, which will comprise of Dr. Jay and a director appointed by APC-LSMA. Dr. Jay and APC-LSMA will have two and one votes as a director, respectively.

Based on management's assessment, Accountable is a variable interest entity. However, the Company does not have the power to the direct the activities of Accountable that most significantly impact its economic performance and as such, the Company is not the primary beneficiary of Accountable.

7. Accounts Payable and Accrued Expenses

The Company's accounts payable and accrued expenses consisted of the following:

	September 30, 2018	December 31, 2017
Accounts payable	\$4,270,947	\$3,786,381
Specialty capitation payable	300,000	547,307
Subcontractor IPA risk pool payable	2,101,597	1,348,376
Professional fees	2,652,095	3,004,215
Accrued compensation	6,832,233	4,343,341

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

Deferred revenue	250,000	250,000
AIPBP payable to CMS, net (see Note 13)	28,567,933	-
	\$44,974,805	\$13,279,620

8. Medical Liabilities

The Company's medical liabilities consisted of the following:

	September 30, 2018	December 31, 2017
Balance, beginning of period	\$63,972,318	\$18,957,465
Medical liabilities assumed from Merger	-	39,353,540
Claims paid for previous period	(35,562,290)	(23,075,516)
Incurred health care costs	160,023,910	121,846,375
Claims paid for current period	(120,277,393)	(92,476,160)
AIPBP payable to CMS (reclassified to Accounts Payable and Accrued Expenses)	(34,464,826)	-
Adjustments	(186,296)	(633,386)
Balance, end of period	\$33,505,423	\$63,972,318

9. Bank Loan, Lines of Credit and Loan Payable – Related Party***Bank Loans***

In December 2010, ICC borrowed a \$4,600,000 loan from a financial institution. The loan bears interest based on the Wall Street Journal “prime rate”, or 5.25% and 4.50% per annum, as of September 30, 2018 and December 31, 2017, respectively. The loan is collateralized by the medical equipment ICC owns and guaranteed by one of ICC's shareholders. The loan matures on December 31, 2018. As of September 30, 2018 and December 31, 2017, the balance outstanding was \$159,906 and \$510,391, respectively, and is classified as current liabilities. As of September 30, 2018, and December 31, 2017, ICC was in compliance with all affirmative and negative covenants contained in the loan agreement.

Lines of Credit

On June 14, 2018, NMM amended its promissory note agreement with a bank (“NMM Business Loan Agreement”), which provides for loan availability of up to \$20,000,000 with a maturity date of June 22, 2020. The NMM Business Loan Agreement was subsequently amended on September 1, 2018 to temporarily increase the loan availability from

\$20,000,000 to \$27,000,000 for the period from September 1, 2018 through January 31, 2019 and to facilitate the issuance of an additional standby letter of credit for the benefit of CMS. The interest rate is based on the Wall Street Journal “prime rate” plus 0.125%, or 5.375% and 4.625%, as of September 30, 2018 and December 31, 2017, respectively. As of December 31, 2017, NMM was not in compliance with certain financial debt covenant requirements contained in the loan agreement for which NMM obtained a waiver through June 30, 2018. As of September 30, 2018, NMM was in compliance with such financial debt covenant requirements. Pursuant to the June 2018 amendment, certain covenants were modified or deleted in its entirety; the loan is guaranteed by Apollo Medical Holdings, Inc. and is collateralized by substantially all of the assets of NMM. In October 2017, NMM borrowed \$5,000,000 on this line of credit to make a \$5,000,000 loan advance to Accountable Health Care IPA (see Note 6), and on June 27, 2018, NMM borrowed an additional \$8,000,000 under this line of credit to fund its investment in 531 W. College LLC. The amount outstanding as of September 30, 2018 and December 31, 2017 was \$13,000,000 and \$5,000,000, respectively. As of September 30, 2018 and December 31, 2017, availability under this line of credit was \$7,300,671 and \$8,300,671, respectively.

On September 5, 2018, NMM entered into a non-revolving line of credit agreement with a bank (“NMM Line of Credit Agreement”), which provides for loan availability of up to \$20,000,000 with a maturity date of September 5, 2019. The interest rate is based on the Wall Street Journal “prime rate” plus 0.125%, or 5.375%, as of September 30, 2018. The line of credit is guaranteed by Apollo Medical Holdings, Inc. and is collateralized by substantially all assets of NMM. The line of credit was obtained to finance potential acquisitions, with each drawdown to be converted into a five-year term loan with monthly principal payments plus interest based on a five-year amortization schedule, the availability of the line of credit is reduced accordingly based on the aggregate amount drawn. As of September 30, 2018, availability under this line of credit was \$20,000,000.

On June 14, 2018, APC amended its promissory note agreement with a bank (“APC Business Loan Agreement”), which provides for loan availability of up to \$10,000,000 with a maturity date of June 22, 2020. The interest rate is based on the Wall Street Journal “prime rate” plus 0.125%, or 5.375% and 4.625%, as of September 30, 2018 and December 31, 2017, respectively. As of December 31, 2017, APC was not in compliance with certain financial debt covenant requirements contained in the loan agreement for which APC obtained a waiver through June 30, 2018. As of September 30, 2018, APC was in compliance with such financial debt covenant requirements. Pursuant to the June 2018 amendment, certain covenants were modified or deleted in its entirety and the guarantee made by individual shareholders of APC was removed. The loan is also collateralized by substantially all assets of APC. No amounts were drawn on this line during the nine months ended September 30, 2018 and no amounts were outstanding as of September 30, 2018 and December 31, 2017. As of both September 30, 2018 and December 31, 2017, availability under this line of credit was \$9,694,984.

Standby Letters of Credit

On March 3, 2017, APAACO established an irrevocable standby letter of credit with a financial institution (through the NMM Business Loan Agreement) for \$6,699,329 for the benefit of CMS. The letter of credit expires on December 31, 2018 and is deemed automatically extended without amendment for additional one - year periods from the present or any future expiration date, unless notified by the institution to terminate prior to 90 days from any expiration date. APAACO may continue to draw from the letter of credit for one year following the bank’s notification of non-renewal.

On October 3, 2018, APAACO established an irrevocable standby letter of credit with a financial institution (through the NMM Business Loan Agreement) for \$6,601,613 for the benefit of CMS. The letter of credit expires on December 31, 2019 and is deemed automatically extended without amendment for additional one - year periods from the present or any future expiration date, unless notified by the institution to terminate prior to 90 days from any expiration date. APAACO may continue to draw from the letter of credit for one year following the bank's notification of non-renewal.

APC established irrevocable standby letters of credit with a financial institution for a total of \$305,016 for the benefit of certain health plans. The standby letters of credit are automatically extended without amendment for additional one-year periods from the present or any future expiration date, unless notified by the institution in advance of the expiration date that the letter will be terminated.

10. Mezzanine and Stockholders' Equity

All the historical NMM share and per share information has been adjusted to reflect the exchange ratio from the Merger (see Note 3).

Mezzanine

APC

As the redemption feature (see Note 2) of the shares is not solely within the control of APC, the equity of APC does not qualify as permanent equity and has been classified as noncontrolling interests in mezzanine or temporary equity.

Stockholders' Equity

As of the date of this Report, 648,705 holdback shares have not been issued to certain former NMM shareholders who were NMM shareholders at the time of Closing of the Merger, as they have yet to submit properly completed letters of transmittal to ApolloMed in order to receive their pro rata portion of ApolloMed common stock and warrants as contemplated under the Merger Agreement. Pending such receipt, such former NMM shareholders have the right to receive, without interest, their pro rata share of dividends or distributions with a record date after the effectiveness of the Merger. The condensed consolidated financial statements have treated such shares of common stock as outstanding, given the receipt of the letter of transmittal is considered perfunctory and the Company is legally

obligated to issue these shares in connection with the Merger.

On March 21, 2018, the Company issued 37,593 shares of the Company's common stock to the Company's Chief Operating Officer for prior services rendered. The stock price on the date of issuance was \$16.80 per share, which resulted in the Company recording \$631,562 of share-based compensation expense.

See options and warrants section below for common stock issued upon exercise of stock options and stock purchase warrants.

Options

The Company's outstanding stock options consisted of the following:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Options outstanding at January 1, 2018	1,141,040	\$ 3.95	5.79	\$ 19.81
Options granted	155,000	9.85	-	-
Options exercised	(426,990)	4.27	-	15.83
Options forfeited	(9,000)	3.41	-	-
Options outstanding at September 30, 2018	860,050	\$ 5.17	4.62	\$ 16.90
Options exercisable at September 30, 2018	860,050	\$ 5.17	4.62	\$ 16.90

During the nine months ended September 30, 2018, stock options were exercised pursuant to the cashless exercise provision of the option agreement, with respect to 60,536 shares of the Company's common stock, which resulted in the Company issuing 47,576 net shares.

During the nine months September 30, 2018, stock options were exercised for 366,454 shares of the Company's common stock, which resulted in proceeds of approximately \$1.5 million. The exercise price ranged from \$0.01 to \$10.00 per share.

Outstanding stock options granted to primary care physicians to purchase shares of APC's common stock consisted of the following:

30

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Options outstanding at January 1, 2018	853,800	\$ 0.167	1.75	\$ 508,864
Options granted	-	-	-	-
Options exercised	-	-	-	-
Options expired/forfeited	-	-	-	-
Options outstanding at September 30, 2018	853,800	\$ 0.167	1.00	\$ 508,864
Options exercisable at September 30, 2018	853,800	\$ 0.167	1.00	\$ 508,864

The aggregate intrinsic value is calculated as the difference between the exercise price and the estimated fair value of common stock as of September 30, 2018.

Share-based compensation expense related to option awards granted to primary care physicians to purchase shares of APC's common stock, are recognized over their respective vesting periods, and consisted of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Share-based compensation expense:				
Cost of services	\$-	\$1,227	\$-	\$3,681
General and administrative	202,382	320,006	607,146	960,018
	\$202,382	\$321,233	\$607,146	\$963,699

The remaining unrecognized share-based compensation expense of stock option awards granted to primary care physicians to purchase shares of APC's common stock as of September 30, 2018 was \$809,528 which is expected to be recognized over the remaining term of 1.00 year.

Warrants

The Company's outstanding warrants consisted of the following:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Warrants outstanding at January 1, 2018	3,648,541	\$ 9.75	3.74	\$ 14.25
Warrants granted	-	-	-	-
Warrants exercised	(268,663)	7.82	-	10.58
Warrants expired/forfeited	(11,250)	-	-	-
Warrants outstanding at September 30, 2018	3,368,628	\$ 9.92	3.21	\$ 12.15

Exercise Price Per Share	Warrants Outstanding	Weighted Average Remaining Contractual Life	Warrants Exercisable	Weighted Average Exercise Price Per Share
\$ 4.50	5,000	0.10	5,000	\$ 4.50
9.00	1,092,350	2.04	1,092,350	9.00
10.00	1,433,916	3.54	1,433,916	10.00
11.00	837,362	4.19	837,362	11.00
\$ 4.50 –11.00	3,368,628	3.21	3,368,628	\$ 9.92

During the nine months ended September 30, 2018, common stock warrants were exercised for 268,663 shares of the Company's common stock, which resulted in proceeds of approximately \$2.1 million. The exercise price ranged from \$4.00 to \$11.00 per share.

Treasury Stock

APC owns 1,682,110 shares of ApolloMed's common stock as of September 30, 2018 and December 31, 2017, which are legally issued and outstanding but excluded from shares of common stock outstanding in the condensed consolidated financial statements, as such shares are treated as treasury shares for accounting purposes.

Dividends

During the first quarter of 2018, APC distributed \$2,000,000 of dividends to APC shareholders.

NMM distributed approximately \$10,000,000 and \$3,783,799, in April 2018 and September 2018, respectively, to former NMM shareholders, from the \$18,000,000 that was previously classified as restricted cash and dividends payable. The remaining balance of \$4,216,201 will be paid in the fourth quarter of 2018 pending resolution of the legal settlement with certain former NMM shareholders and was classified as restricted cash as of September 30, 2018 (see Note 11).

11. Commitments and Contingencies

Regulatory Matters

Laws and regulations governing the Medicare program and healthcare generally are complex and subject to interpretation. The Company believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no regulatory inquiries have been made, 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 Medi-Cal programs.

As risk-bearing organizations, APC and MMG are required to follow regulations of the California DMHC, including maintenance of minimum working capital, tangible net equity (“TNE”), cash-to-claims ratio and claims payment requirements prescribed by the California DMHC. TNE is defined as net equity less intangibles, less non-allowable assets (which include unsecured amounts due from affiliates), plus subordinated obligations. At September 30, 2018 and December 31, 2017, APC was in compliance with these regulations. At December 31, 2017, MMG was not in compliance with these regulations. As a result, the California DMHC required MMG to develop and implement a corrective action plan (“CAP”) for such deficiency. MMG received confirmation from substantially all of MMG’s direct-contracted health plans, that they have moved membership out of MMG effective May 1, 2018, and as a result, MMG is no longer required to be in compliance with these regulations.

Many of the Company’s payor and provider contracts are complex in nature and may be subject to differing interpretations regarding amounts due for the provision of medical services. Such differing interpretations may not come to light until a substantial period of time has passed following contract implementation. Liabilities for claims disputes are recorded when the loss is probable and can be estimated. Any adjustments to reserves are reflected in current operations.

Litigation

From time to time, the Company is involved in various legal proceedings and other matters arising in the normal course of its business. The resolution of any claim or litigation is subject to inherent uncertainty and could have a material adverse effect on the Company’s financial condition, cash flows or results of operations.

On or about March 23, 2018 and April 3, 2018, a Demand for Arbitration and an Amended Demand for Arbitration were filed by Prospect Medical Group, Inc. and Prospect Medical Systems, Inc. (collectively, “Prospect”) against MMG, ApolloMed and AMM with Judicial Arbitration Mediation Services in California, arising out of MMG’s purported business plans, seeking damages in excess of \$5.0 million, and alleging breach of contract, violation of unfair competition laws, and tortious interference with Prospect’s current and future economic relationships with its health plans and their members. MMG, ApolloMed and AMM dispute the allegations and intend to vigorously defend against this matter.

On August 15, 2018, ApolloMed, NMM, APC and APCN-ACO entered into a stipulation for settlement and mutual release of claims with certain former shareholders to repurchase all the equity interests in ApolloMed and APC previously held by these shareholders pursuant to the stipulation. ApolloMed and APC will pay approximately \$4.2 million and \$1.7 million, respectively, to repurchase 168,493 and 1,662,571 shares of common stock of each company, respectively. The repurchase is contingent upon execution of the settlement agreement, which as of the filing date of this Report, has not been completed. The Company recorded approximately \$0.4 million of legal settlement liability based on the proposed settlement amount which exceeds the fair value of the repurchased ApolloMed shares of common stock and warrants and accordingly, was reclassified from dividends payable to accounts payable and accrued expenses.

12. Related Party Transactions

On November 16, 2015, UCAP entered into a subordinated note receivable agreement with UCI, a 48.9% owned equity method investee (see Note 5), in the amount of \$5,000,000. On June 28, 2018, UCAP entered into a new subordinated note receivable agreement with UCI in the amount of \$2,500,000.

During the three and nine months ended September 30, 2018 and 2017, APC paid approximately \$76,000 and \$77,000, respectively, and \$244,000 and \$174,000, respectively, to Advanced Diagnostic Surgery Center for services as a provider. Advanced Diagnostic Surgery Center shares common ownership with certain board members of APC.

During the three and nine months ended September 30, 2018 and 2017, NMM received approximately \$6.1 million and \$4.5 million, respectively, and \$16.0 million and \$13.4 million, respectively, in management fees from LMA, which is accounted for under the equity method based on 25% equity ownership interest held by APC in LMA's IPA line of business (see Note 5).

During the three and nine months ended September 30, 2018 and 2017, APC paid approximately \$0.7 million and \$0.6 million, respectively, and \$1.9 million and \$1.7 million, respectively, to PMIOC for provider services, which is accounted for under the equity method based on 40% equity ownership interest held by APC (see Note 5).

During the three and nine months ended September 30, 2018 and 2017, APC paid approximately \$0.8 million and \$0.6 million, respectively, and \$2.6 million and \$1.9 million, respectively, to AMG, Inc. for services as a provider. AMG, Inc. shares common ownership with certain board members of APC.

In September 2015, ApolloMed entered into a note receivable with Rob Mikitarian, a former minority owner in APS, in the amount of approximately \$150,000. The note accrued interest at 3% per annum and currently due on demand. As of September 30, 2018, and December 31, 2017, the balance of the note was approximately \$150,000 and is included in other receivables in the accompanying consolidated balance sheets. As of September 30, 2018 and December 31, 2017 the Company also has approximately \$145,000 in contingent compensation that is payable to Rob Mikitarian.

In addition, affiliates wholly-owned by the Company's officers, including Dr. Lam and Dr. Hosseinion, are reported in the accompanying consolidated statement of income on a consolidated basis, together with the Company's subsidiaries, and therefore, the Company does not separately disclose transactions between such affiliates and the Company's subsidiaries as related party transactions.

During the three and nine months ended September 30, 2018 and 2017, APC paid approximately \$1.7 million and \$1.7 million, respectively, and \$5.5 million and \$4.7 million, respectively, to DMG for provider services, which is accounted for under the equity method based on 40% equity ownership interest held by APC (see Note 5).

During the three and nine months ended September 30, 2018 and 2017, NMM paid approximately \$0.3 million and \$0.3 million, respectively, and \$0.8 million and \$0.8 million, respectively, to Medical Property Partners ("MPP") for an office lease. MPP shares common ownership with certain board members of NMM.

During the three and nine months ended September 30, 2018 and 2017, APC paid \$60,000 and \$90,000, respectively, and \$240,000 and \$270,000, respectively, to Tag-2 Medical Investment Group, LLC ("Tag-2") for an office lease. Tag-2 shares common ownership with certain board members of APC.

During the three and nine months ended September 30, 2018 and 2017, APC paid an aggregate of approximately \$7.3 million and \$9.2 million, respectively, and \$29.2 million and \$32.2 million, respectively, to shareholders of APC for provider services, which include approximately \$2.4 million and \$2.8 million, respectively, and \$9.8 million and \$12.2 million, respectively, to shareholders who are also officers of APC.

For loans receivable from related parties, see Note 5.

13. Revenue Recognition

At the adoption of Topic 606, the cumulative effect of initially applying the new revenue standard is required to be presented as an adjustment to the opening balance of retained earnings. This cumulative effect amount was determined to be related to the full risk pool arrangements of APC, a variable interest entity (see Note 1). Therefore, the

cumulative net effect of initially applying Topic 606 in the amount of \$10,208,000, which is comprised of \$11,600,000 of additional revenue, offset by \$1,392,000 in related management fee expense, has been presented as an adjustment to the opening balance of the mezzanine equity, "Noncontrolling interest in Allied Pacific of California IPA." Consequently, as a result of APC recording additional receivables, NMM recorded a corresponding entry of \$1,392,000 to retained earnings to record the related management fee income. These adjustments were offset by an aggregate adjustment to deferred tax liability of \$3,246,098.

The impact of the adoption of this ASU on the Company's revenue, when comparing the amount of revenue recognized for the three and nine months ended September 30, 2018 to the revenue that would have been recognized under the prior revenue standard ASC 605, are summarized as follows:

The table below presents the impact of the adoption of ASC 606 on the Company's condensed consolidated statements of income.

	Three months ended September 30, 2018		
	Under ASC	Effect of	As Reported
	605	606	Under ASC 606
Risk pool settlements and incentives	\$32,288,932	\$25,500,000	\$57,788,932
Total revenue	141,780,410	25,500,000	167,280,410
Provision for income taxes	7,450,124	7,135,818	14,585,942
Net income	20,261,258	18,364,182	38,625,440
Net income attributable to noncontrolling interest	13,358,562	16,160,481	29,519,043
Net income attributable to Apollo Medical Holdings, Inc.	\$6,902,696	\$2,203,701	\$9,106,397
Earnings per share - basic	\$0.21	\$0.07	\$0.28
Earnings per share - diluted	\$0.18	\$0.06	\$0.24
	Nine months ended September 30, 2018		
	Under ASC	Effect of	As Reported
	605	606	Under ASC 606
Risk pool settlements and incentives	\$60,741,885	\$28,900,000	\$89,641,885
Total revenue	385,551,683	28,900,000	414,451,683
Provision for income taxes	15,251,328	8,087,261	23,338,589
Net income	41,395,949	20,812,739	62,208,688
Net income attributable to noncontrolling interest	29,962,523	18,315,211	48,277,734
Net income attributable to Apollo Medical Holdings, Inc.	\$11,433,426	\$2,497,528	\$13,930,954
Earnings per share - basic	\$0.35	\$0.08	\$0.43
Earnings per share - diluted	\$0.30	\$0.07	\$0.37

The table below presents the impact of the adoption of ASC 606 on the Company's consolidated balance sheet.

	September 30, 2018		As Reported Under ASC 606
	Under ASC 605	Effect of ASC 606	
Assets			
Trade accounts receivable, net	\$41,184,171	\$28,900,000	\$70,084,171
Total assets	522,998,869	28,900,000	551,898,869
Noncurrent liabilities			
Deferred tax liability	26,564,409	8,087,261	34,651,670
Mezzanine equity			
Noncontrolling interest in Allied Pacific of California IPA	206,832,046	18,315,211	225,147,257
Shareholders' equity			
Retained earnings	14,602,537	2,497,528.00	17,100,065
Total liabilities, mezzanine equity and stockholders' equity	\$522,998,869	\$28,900,000	\$551,898,869

The cumulative effect of changes made to the Company's condensed consolidated balance sheet as of January 1, 2018 for the adoption of Topic 606 were as follows:

	Balance at December 31, 2017	Adjustments due to Topic 606	Balance at January 1, 2018
Current Assets			
Receivables	\$20,117,304	\$11,600,000	\$31,717,304
Liabilities, Mezzanine Equity and Stockholders' Equity			
Noncurrent Liabilities			
Deferred tax liability	\$24,916,598	\$3,246,098	\$28,162,696
Mezzanine equity			
Noncontrolling interest in Allied Pacific of California IPA	\$172,129,744	\$7,351,434	\$179,481,178
Stockholders' Equity			
Retained earnings	\$1,734,531	\$1,002,468	\$2,736,999

The Company operates as one reportable segment, the healthcare delivery segment. The Company disaggregates revenue from contracts by service type and by payor. This level of detail provides useful information pertaining to how the Company generates revenue by significant revenue stream and by type of direct contracts. The condensed consolidated statements of income present disaggregated revenue by service type. The following table presents disaggregated revenue generated by each payor type for the three and nine months ended September 30, 2018 and 2017:

Three Months Ended	September 30, 2018	September 30, 2017
Commercial	\$136,477,858	\$95,225,914
Medicare	30,534,724	1,840,804
Medicaid	183,618	-
Other third parties	84,210	67,563
Revenue	\$167,280,410	\$97,134,281

Nine Months Ended	September 30, 2018	September 30, 2017
Commercial	\$339,721,075	\$258,462,109
Medicare	73,995,902	5,163,909
Medicaid	543,762	-
Other third parties	190,944	156,025
Revenue	\$414,451,683	\$263,782,043

The Company receives payments from the following sources for services rendered: (i) commercial insurers; (ii) the federal government under the Medicare program administered by CMS; (iii) state governments under the Medicaid and other programs; (iv) other third party payors (e.g., hospitals); and (v) individual patients and clients. As the period between the time of service and time of payment is typically one year or less, the Company elected the practical expedient under ASC 606-10-32-18 and did not adjust for the effects of a significant financing component.

The Company derives a significant portion of its revenue from Medicare, Medicaid and other payors that receive discounts from established billing rates. The Medicare and Medicaid regulations and various managed care contracts under which these discounts must be calculated are complex, subject to interpretation and adjustment, and may include multiple reimbursement mechanisms for different types of services provided and cost settlement provisions. Management estimates the transaction price on a payor-specific basis given its interpretation of the applicable regulations or contract terms. The services authorized and provided and related reimbursements are often subject to interpretation that could result in payments that differ from the Company's estimates. Additionally, updated regulations and contract renegotiations occur frequently, necessitating regular review and assessment of the estimation process by management.

Settlements under cost reimbursement agreements with third-party payors are estimated and recorded in the period in which the related services are rendered and are adjusted in future periods as final settlements are determined. Final determination of amounts earned under the Medicare and Medicaid programs often occurs in subsequent years

because of audits by such programs, rights of appeal and the application of numerous technical provisions.

Under the new revenue standard, the Company has elected to apply the following practical expedients and optional exemptions:

Recognize incremental costs of obtaining a contract with amortization periods of one year or less as expense when incurred. These costs are recorded within general and administrative expenses.

Recognize revenue in the amount of consideration to which the Company has a right to invoice the customer if that amount corresponds directly with the value to the customer of the Company's services completed to date.

Exemptions from disclosing the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less, (ii) contracts for which revenue is recognized in the amount of consideration to which the Company has a right to invoice for services performed, and (iii) contracts for which variable consideration is allocated entirely to a wholly unsatisfied performance obligation or to a wholly unsatisfied promise to transfer a distinct service that forms part of a single performance obligation.

Use a portfolio approach for the fee-for-service (FFS) revenue stream to group contracts with similar characteristics and analyze historical cash collections trends.

No adjustment is made for the effects of a significant financing component as the period between the time of service and time of payment is typically one year or less.

Nature of Services and Revenue Streams

Revenue primarily consists of capitation revenue, risk pool settlements and incentives, NGACO All-Inclusive Population-Based Payments ("AIPBP") revenue, management fee income, MSSP surplus revenue and FFS revenue. Revenue is recorded in the period in which services are rendered. The form of billing and related risk of collection for such services may vary by type of revenue and the customer. The following is a summary of the principal forms of the Company's billing arrangements and how revenue is recognized for each.

Capitation, net

Managed care revenues of the Company consist primarily of capitated fees for medical services provided by the Company under either provider service agreements (each, a "PSA") or capitated arrangements directly made with various managed care providers including HMOs. Capitation revenue under the PSAs and HMO contracts is prepaid monthly to the Company based on the number of enrollees selecting the Company as their healthcare provider. Capitation revenue is recognized in the month in which the Company is obligated to provide services. Minor ongoing adjustments to prior months' capitation, primarily arising from contracted HMOs finalizing their monthly patient eligibility data for additions or subtractions of enrollees, are recognized in the month they are communicated to the Company. Additionally, Medicare pays capitation using a "Risk Adjustment model," which compensates managed care organizations and providers based on the health status (acuity) of each individual enrollee. Health plans and providers with higher acuity enrollees will receive more and those with lower acuity enrollees will receive less. Under Risk Adjustment, capitation is determined based on health severity, measured using patient encounter data. Capitation is paid on a monthly basis based on data submitted for the enrollee for the preceding year and is adjusted in subsequent

periods after the final data is compiled. Positive or negative capitation adjustments are made for Medicare enrollees with conditions requiring more or less healthcare services than assumed in the interim payments. Since the Company cannot reliably predict these adjustments, periodic changes in capitation amounts earned as a result of Risk Adjustment are recognized when those changes are communicated by the health plans to the Company.

Per member per month (“PMPM”) managed care contracts generally have a term of one year or longer. All managed care contracts have a single performance obligation that constitutes a series for the provision of managed healthcare services for a population of enrolled members for the duration of the contract. The transaction price for PMPM contracts is variable as it primarily includes per member per month fees associated with unspecified membership that fluctuates throughout the contract. In certain contracts, PMPM fees also include adjustments for items such as performance incentives, performance guarantees and risk shares. The Company generally estimates the transaction price using the most likely methodology and amounts are only included in the net transaction price to the extent that it is probable that a significant reversal of cumulative revenue will not occur once any uncertainty is resolved. The majority of the Company’s net PMPM transaction price relates specifically to its efforts to transfer the service for a distinct increment of the series (e.g. day or month) and is recognized as revenue in the month in which members are entitled to service.

Risk Pool Settlements and Incentives

APC enter into full risk capitation arrangements with certain health plans and local hospitals, which are administered by a third party, where the hospital is responsible for providing, arranging and paying for institutional risk and APC is responsible for providing, arranging and paying for professional risk. Under a full risk pool sharing agreement, APC generally receives a percentage of the net surplus from the affiliated hospital’s risk pools with HMOs after deductions for the affiliated hospitals costs. Advance settlement payments are typically made quarterly in arrears if there is a surplus. Risk pool settlements under arrangements with health plans and hospitals are recognized using the most likely methodology and amounts are only included in revenue to the extent that it is probable that a significant reversal of cumulative revenue will not occur once any uncertainty is resolved. The assumptions for IBNR completion factor and constraint percentages were used by management in applying the most likely method.

Under capitated arrangements with certain HMOs and APC participates in one or more shared risk arrangements relating to the provision of institutional services to enrollees (shared risk arrangements) and thus can earn additional revenue or incur losses based upon the enrollee utilization of institutional services. Shared risk capitation arrangements are entered into with certain health plans, which are administered by the health plan, where APC is responsible for rendering professional services, but the health plan does not enter into a capitation arrangement with a hospital and therefore the health plan retains the institutional risk. Shared risk deficits, if any, are not payable until and unless (and only to the extent of any) risk sharing surpluses are generated. At the termination of the HMO contract, any accumulated deficit will be extinguished. Risk pool settlements under arrangements with HMOs are recognized using the most likely methodology and amounts are only included in revenue to the extent that it is probable that a significant reversal of cumulative revenue will not occur once any uncertainty is resolved. Risk pools for the prior contract years are generally final settled in the third or fourth quarter of the following year.

As APAACO does not have sufficient insight into the financial performance of the shared risk pool with CMS because of unknown factors related to IBNR, risk adjustment factors, stop loss provisions, etc., an estimate cannot be developed. Due to these limitations, APAACO cannot determine the amount of surplus or deficit that will probably not be reversed in the future and therefore this shared risk pool revenue is considered to be fully constrained.

In addition to risk-sharing revenues, the Company also receives incentives under “pay-for-performance” programs for quality medical care, based on various criteria. As an incentive to control enrollee utilization and to promote quality care, certain HMOs have designed the quality incentive programs and commercial generic pharmacy incentive programs to compensate the Company for efforts it takes to improve the quality of services and for efficient and effective use of pharmacy supplemental benefits provided to the HMO’s members. The incentive programs track specific performance measures and calculate payments to the Company based on the performance measures. Incentives under “pay-for-performance” programs are recognized using the most likely methodology. As the Company does not have sufficient insight from the health plans on the amount and timing of the incentive payments, this revenue is considered to be fully constrained and is only recorded when such payments are received.

Generally for the foregoing arrangements, the final settlement is dependent on each distinct day’s performance within the annual measurement period but cannot be allocated to specific days until the full measurement period has occurred and performance can be assessed. As such, this is a form of variable consideration estimated at contract inception and updated through the measurement period (i.e. the contract year), to the extent the risk of reversal does not exist and the consideration is not constrained.

NGACO AIPBP Revenue

Under the NGACO Model, CMS grants the Company a pool of patients to manage (direct care and pay providers) based on a budget established with CMS. The Company is responsible for managing medical costs for these patients.

The patients will receive services from physicians and other medical service providers that are both in-network and out-of-network. The Company receives capitation from CMS on a monthly basis to pay claims from in-network providers. The Company records such capitation received from CMS as revenue as the Company is primarily responsible and liable for managing the patient care and for satisfying provider obligations, is assuming the credit risk for the services provided by in-network providers through its arrangement with CMS, and has control of the funds, the services provided and the process by which the providers are ultimately paid. Claims from out-of-network providers are processed or paid by CMS and the Company's profits or losses in managing the services provided by out-of-network providers are generally determined on an annual basis after reconciliation with CMS. Pursuant to the Company's risk share agreement with CMS, the Company will be eligible to receive the surplus or be liable for the deficit according to the budget established by CMS based on the Company's efficiency or lack thereof, respectively, in managing how the patients assigned to the Company by CMS are served by in-network and out-of-network providers. The Company's profits or losses on providing such services are both capped by CMS, and are subject to significant estimation risk, whereby payments can vary significantly depending upon certain patient characteristics and other variable factors. Accordingly, the Company recognizes such surplus or deficit upon substantial completion of reconciliation and determination of the amounts. In accordance with the guidance in ASC 606-10-55-36 through 55-40 on principal versus agent considerations, the Company records such revenues in the gross amount of consideration.

The Company also has arrangements for billing and payment services with the medical providers within the NGACO network. The Company retains certain defined percentages of the payments made to the providers in exchange for using the Company's billing and payment services. The revenue for this service is earned as payments are made to medical providers.

APAACO and CMS entered into a Next Generation ACO Model Participation Agreement (the "Participation Agreement") with a term of two performance years through December 31, 2018. CMS may offer to renew the Participation Agreement for additional terms of two performance years.

For each performance year, the Company shall submit to CMS its selections for risk arrangement; the amount of the profit/loss cap; alternative payment mechanism; benefits enhancements, if any; and its decision regarding voluntary alignment under the NGACO Model. The Company must obtain CMS consent before voluntarily discontinuing any benefit enhancement during a performance year.

For each performance year, CMS shall pay the Company in accordance with the alternative payment mechanism, if any, for which CMS has approved the Company; the risk arrangement for which the Company has been approved by CMS; and as otherwise provided in the Participation Agreement. Following the end of each performance year and at such other times as may be required under the Participation Agreement, CMS will issue a settlement report to the Company setting forth the amount of any shared savings or shared losses and the amount of other monies owed. If CMS owes the Company shared savings or other monies owed, CMS shall pay the Company in full within 30 days after the date on which the relevant settlement report is deemed final, except as provided in the Participation Agreement. If the Company owes CMS shared losses or other monies owed as a result of a final settlement, the Company shall pay CMS in full within 30 days after the relevant settlement report is deemed final. If the Company fails to pay the amounts due to CMS in full within 30 days after the date of a demand letter or settlement report, CMS shall assess simple interest on the unpaid balance at the rate applicable to other Medicare debts under current provisions of law and applicable regulations. In addition, CMS and the U.S. Department of the Treasury may use any applicable debt collection tools available to collect any amounts owed by the Company.

The Company participates in the AIPBP track of the NGACO Model. Under the AIPBP track, CMS estimates the total annual expenditures for APAACO's assigned patients and pays that projected amount to the Company in monthly installments, and the Company is responsible for all Part A and Part B costs for in-network participating providers and preferred providers contracted by the Company to provide services to the assigned patients.

As it relates specifically to the Company's Participation Agreement with CMS, the Company recognizes capitation revenue in the month in which the Company is obligated to provide services. Also, because the Company's arrangement with CMS is new (became effective in 2017), numerous factors create uncertainty regarding the risk pool settlement and incentive amounts that the Company is entitled to receive and limited historical data exists to develop reasonable and reliable estimates. As a result, the Company recognizes revenue from risk pool settlements and incentives under the arrangement with CMS in the period in which amounts are estimable and collection is reasonably assured. The Company will continue to evaluate and assess the reliability and reasonableness of data available to it in order to develop future estimates, and will recognize risk pool settlements and incentives revenue based on such estimates only to the extent it is probable that a significant reversal of cumulative revenue will not occur in future periods.

In October 2017, CMS notified the Company that it would not be renewed for participation in the AIPBP payment mechanism of the NGACO Model for performance year 2018 due to certain alleged deficiencies in performance. The Company submitted a reconsideration request. In December 2017, the Company received the official decision on its reconsideration request that CMS reversed the prior decision against the Company's continued participation in the AIPBP mechanism. As a result, the Company was eligible for receiving monthly AIPBP payments at a rate of approximately \$7.3 million per month from CMS that started in February 2018. The Company, however, will need to continue to comply with all terms and conditions in the Participation Agreement and various regulatory requirements to be eligible to participate in the AIPBP mechanism and/or NGACO Model. As of the filing date of this Report, we continue to be eligible for receiving AIPBP payments at the current rate of approximately \$5.5 million per month effective October 1, 2018. On November 6, 2018, the Company was notified by CMS that under the NGACO alternative payment arrangement the Company was paid an excess amount of approximately \$34.5 million related to

the first performance year (January 1, 2017 through December 31, 2017) with a six month run out through June 30, 2018. This excess amount has been accrued (reclassified from medical liabilities) by the Company and is included in accounts payable and accrued expenses as of September 30, 2018 and will be refunded to CMS in the fourth quarter.

Management Fee Income

Management fee income encompasses fees paid for management, physician advisory, healthcare staffing, administrative and other non-medical services provided by the Company to IPAs, hospitals and other healthcare providers. Such fees may be in the form of billings at agreed-upon hourly rates, percentages of revenue or fee collections, or amounts fixed on a monthly, quarterly or annual basis. The revenue may include variable arrangements measuring factors such as hours staffed, patient visits or collections per visit against benchmarks, and, in certain cases, may be subject to achieving quality metrics or fee collections. Such variable 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. The Company's MSA revenue also includes revenue sharing payments from the Company's partners based on their non-medical services.

The Company provides a significant service of integrating the services selected by the Company's clients into one overall output for which the client has contracted. Therefore, such management contracts generally contain a single performance obligation. The nature of the Company's performance obligation is to stand ready to provide services over the contractual period. Also, the Company's performance obligation forms a series of distinct periods of time over which the Company stands ready to perform. The Company's performance obligation is satisfied as the Company completes each period's obligations.

Consideration from management contracts is variable in nature because the majority of the fees are generally based on revenue or collections, which can vary from period to period. The Company has control over pricing. Contractual fees are invoiced to the Company's clients generally monthly and payment terms are typically due within 30 days. The variable consideration in the Company's management contracts meets the criteria to be allocated to the distinct period of time to which it relates because (i) it is due to the activities performed to satisfy the performance obligation during that period and (ii) it represents the consideration to which the Company expects to be entitled.

The Company's management contracts generally have long terms (e.g., ten years), although they may be terminated earlier under the terms of the respective contracts. Since the remaining variable consideration will be allocated to a wholly unsatisfied promise that forms part of a single performance obligation recognized under the series guidance, the Company has applied the optional exemption to exclude disclosure of the allocation of the transaction price to remaining performance obligations.

Medicare Shared Savings Program Surplus Revenue

The Company participated in the MSSP, which is sponsored by CMS. The goal of the MSSP is to improve the quality of patient care and outcomes through a more efficient and coordinated approach among providers. The MSSP allows ACO participants to share in cost savings it generates in connection with rendering medical services to Medicare patients. Payments to ACO participants, if any, will be calculated annually by CMS on cost savings generated by the ACO participant relative to the ACO participants' cost savings benchmark. Revenues earned by the Company are uncertain, and, if such amounts are payable by CMS, they will be paid on an annual basis significantly after the time earned, and will be contingent on various factors, including achievement of the minimum savings rate as determined by MSSP for the relevant period. Such payments are earned and made on an "all or nothing" basis. The Company considers revenue, if any, under the MSSP, as contingent upon the realization of program savings as determined solely by CMS, which are subject to significant estimation risk. Accordingly, they are not recognized as revenue until the amounts are estimable and collection is reasonably assured, which is generally when notice is received from CMS that cash payments are to be imminently received.

Fee-for-Service Revenue

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

The Company is responsible for confirming member eligibility, performing program utilization review, potentially directing payment to the provider and accepting the financial risk of loss associated with services rendered, as specified within the Company's client contracts. The Company has the ability to adjust contractual fees with clients and possess the financial risk of loss in certain contractual obligations. These factors indicate the Company is the principal and, as such, the Company records gross fees contracted with clients in revenues.

Consideration from FFS arrangements is variable in nature because fees are based on patient encounters, credits due to clients and reimbursement of provider costs, all of which can vary from period to period.

Contract Assets

Typically, revenues and receivables are recognized once the Company has satisfied its performance obligation. Accordingly, the Company's contract assets comprise accounts receivable. Generally, the Company does not have material amounts of other contract assets.

Contract Liabilities (Deferred Revenue)

Contract liabilities are recorded when cash payments are received in advance of the Company's performance, which is generally uncommon. The Company's contract liability balance was \$250,000 as of September 30, 2018 and December 31, 2017 and is presented within the "Accounts Payable and Accrued Expenses" line item of the condensed consolidated balance sheets. None of the amounts accrued as of December 31, 2017 was recognized as revenue for the three and nine months ended September 30, 2018.

14. Income Taxes

On December 22, 2017, the U.S. government enacted comprehensive tax legislation known as the Tax Cuts and Jobs Act (the "TCJA"). The TCJA establishes new tax laws that will take effect in 2018, including, but not limited to (1) a reduction of the U.S. federal corporate tax rate from a maximum of 35% to 21%; (2) elimination of the corporate alternative minimum tax; (3) a new limitation on deductible interest expense; (4) limitations on the deductibility of certain executive compensation; (5) changes to the bonus depreciation rules for fixed asset additions; and (6) limitations on net operating losses generated after December 31, 2017, to 80% of taxable income.

ASC 740, Income Taxes, generally requires the effects of changes in tax laws to be recognized in the period in which the legislation is enacted. However, due to the complexity and significance of the TCJA's provisions, the SEC staff issued Staff Accounting Bulletin 118 ("SAB 118"), which provides guidance on accounting for the tax effects of the TCJA. SAB 118 provides a measurement period that should not extend beyond one year from the TCJA enactment date for companies to complete the accounting under ASC 740. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the TCJA for which the accounting under ASC 740 is complete. To the extent that a company's accounting for certain income tax effects of the TCJA is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the TCJA.

At September 30, 2018 and December 31, 2017, the Company did not complete its accounting for the tax effects of enactment of the TCJA because the Internal Revenue Service has not issued all guidance for the TCJA; however, the Company has made a reasonable estimate of the effects of the TCJA's change in the federal rate and revalued its deferred tax assets based on the rates at which they are expected to reverse in the future, which is generally the new 21% federal corporate tax rate plus applicable state tax rate. The Company recorded a decrease in its deferred tax assets and deferred tax liabilities of \$6.6 million and \$16.3 million, respectively, with a corresponding net adjustment to deferred income tax benefit of \$9.7 million, for the year ended December 31, 2017. The Company's provisional estimates are expected to be adjusted during the measurement period defined under SAB 118, based upon ongoing analysis of data and tax positions along with the new guidance from regulators and interpretations of the TCJA. The Company uses the liability method of accounting for income taxes as set forth in ASC 740. Under the liability method, deferred taxes are determined based on the differences between the Company's financial statements and tax bases of assets and liabilities using enacted tax rates.

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

As of September 30, 2018, due to overall cumulative losses incurred, prior to the merger with NMM, in recent years, the Company maintained a full valuation allowance against its deferred tax assets related to loss entities the Company cannot consolidate under the Federal consolidation rules, as realization of these assets is uncertain. The Company's effective tax rate for the three and nine months ended September 30, 2018 differed from the U.S. federal statutory rate primarily due to state income taxes, prior period true up adjustments and the excess tax benefits of stock-based compensation. As of September 30, 2018, the Company does not have any unrecognized tax benefits related to various federal and state income tax matters. The Company will recognize accrued interest and penalties related to unrecognized tax benefits in income tax expense.

The Company is subject to U.S. federal income tax as well as income tax in California. The Company and its subsidiaries' state and Federal income tax returns are open to audit under the statute of limitations for the years ended December 31, 2014 through December 31, 2017 and for the years ended December 31, 2015 through December 31, 2017, respectively. The Company currently does not anticipate material unrecognized tax benefits within the next 12 months.

15. Earnings Per Share

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

Pursuant to the Merger Agreement, ApolloMed held back 10% of the shares of its common stock that were issuable to NMM shareholders ("Holdback Shares") to secure indemnification of ApolloMed and its affiliates under the Merger Agreement. The Holdback Shares will be held for a period of up to 24 months after the closing of the Merger (to be distributed on a pro-rata basis to former NMM shareholders), during which ApolloMed may seek indemnification for any breach of, or noncompliance with, any provision of the Merger Agreement, by NMM. The Holdback Shares are excluded from the computation of basic earnings per share, but included in diluted earnings per share. As of September 30, 2018 and 2017, APC held 1,682,110 shares of ApolloMed's and NMM's common stock, which are treated as treasury shares for accounting purposes and not included in the number of shares of common stock outstanding used to calculate earnings per share (see Note 10).

Below is a summary of the earnings per share computations:

Three Months Ended September 30,	2018	2017
Earnings per share – basic	\$0.28	\$0.22
Earnings per share – diluted	\$0.24	\$0.20
Weighted average shares of common stock outstanding – basic	32,917,007	25,067,954
Weighted average shares of common stock outstanding – diluted	38,387,700	28,417,877

Nine Months Ended September 30,	2018	2017
Earnings per share – basic	\$0.43	\$0.48
Earnings per share – diluted	\$0.37	\$0.42
Weighted average shares of common stock outstanding – basic	32,672,793	25,067,954
Weighted average shares of common stock outstanding – diluted	38,010,838	28,417,877

Below is a summary of the shares included in the diluted earnings per share computations:

Three Months Ended September 30,	2018	2017
Weighted average shares of common stock outstanding – basic	32,917,007	25,067,954
10% shares held back pursuant to indemnification clause	3,039,609	2,785,328
Stock options	648,724	564,595
Warrants	1,782,360	-
Weighted average shares of common stock outstanding – diluted	38,387,700	28,417,877

Nine Months Ended September 30,	2018	2017
Weighted average shares of common stock outstanding – basic	32,672,793	25,067,954
10% shares held back pursuant to indemnification clause	3,039,609	2,785,328
Stock options	633,131	564,595
Warrants	1,665,305	-
Weighted average shares of common stock outstanding – diluted	38,010,838	28,417,877

16. Variable Interest Entities (VIEs)

A VIE is defined as a legal entity whose equity owners do not have sufficient equity at risk, or, as a group, the holders of the equity investment at risk lack any of the following three characteristics: decision-making rights, the obligation to absorb losses, or the right to receive the expected residual returns of the entity. The primary beneficiary is identified as the variable interest holder that has both the power to direct the activities of the VIE that most significantly affect the entity's economic performance and the obligation to absorb expected losses or the right to receive benefits from the entity that could potentially be significant to the VIE.

The Company follows guidance on the consolidation of VIEs that requires companies to utilize a qualitative approach to determine whether it is the primary beneficiary of a VIE. The process for identifying the primary beneficiary of a VIE requires consideration of the factors that indicate a party has the power to direct the activities that most significantly impact the entity's economic performance, including powers granted to the equity holders, membership in the entity's governing board and a company's economic interest in the entity. The Company analyzes its investments and classifies them as either:

a VIE that must be consolidated because the Company is the primary beneficiary or the legal entity is not a VIE and the Company holds the majority voting interest with no significant participative rights available to the other partners;
or

a VIE that does not require consolidation and is treated as an equity method investment because the Company is not the primary beneficiary or the legal entity is not a VIE and the Company does not hold the majority voting interest.

As part of the above analysis, if it is determined that the Company has the power to direct the activities that most significantly impact the entity's economic performance, the Company considers whether or not it has the obligation to absorb losses or rights to receive benefits of the VIE that could potentially be significant to the VIE.

The Company's VIEs include APC and other immaterial entities.

Assets recognized as a result of consolidating these VIEs do not represent additional assets that could be used to satisfy claims against the Company's general assets. Conversely, liabilities recognized as a result of consolidating these VIEs do not represent additional claims on the Company's general assets; rather, they represent claims against the specific assets of the VIE.

The Company evaluates its relationships with its VIEs on an ongoing basis to ensure that it continues to be the primary beneficiary.

The following table includes assets that can only be used to settle the liabilities of APC and the creditors of APC have no recourse to the Company. These assets and liabilities, with the exception of the investment in a privately held entity that does not report net asset value per share and amounts due to affiliate, which are eliminated upon consolidation with the NMM, are included in the accompanying consolidated balance sheets.

	September 30, 2018	December 31, 2017
Assets		
Current assets		
Cash and cash equivalents	\$55,971,643	\$54,686,370
Restricted cash – short-term	4,218,176	18,005,661
Fiduciary cash	3,434,409	2,017,437
Investment in marketable securities	1,066,103	1,057,090
Receivables, net	59,994,370	15,183,483
Prepaid expenses and other current assets	1,796,643	1,821,328
Total current assets	126,481,344	92,771,369
Noncurrent assets		
Land, property and equipment, net	9,761,142	10,167,689
Intangible assets, net	61,695,254	70,841,907
Goodwill	60,012,316	60,012,316
Loans receivable – related parties	7,500,000	5,000,000
Loan receivable	-	5,000,000
Investment in a privately held entity that does not report net asset value per share	4,725,000	4,320,000
Investments in other entities – equity method	24,122,895	21,903,524
Investment in joint venture – equity method	8,336,920	-
Restricted cash – long-term	745,412	745,235
Other assets	969,487	1,371,664
Total noncurrent assets	177,868,426	179,362,335
Total assets	\$304,349,770	\$272,133,704
Current liabilities		
Accounts payable and accrued expenses	\$4,315,861	\$3,625,610
Incentives payable	5,000,000	21,500,000
Fiduciary accounts payable	3,434,409	2,017,437
Medical liabilities	20,711,286	25,186,240
Income taxes payable	1,277,817	1,463,540
Amount due to affiliate	14,650,703	24,889,717
Bank loan	159,906	510,391
Capital lease obligations	100,982	98,738
Total current liabilities	49,650,964	79,291,673
Noncurrent liabilities		
Deferred tax liability	29,833,368	20,970,766
Liability for unissued equity shares	1,185,025	1,185,025

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

Capital lease obligations, net of current portion	542,982	619,001
Total noncurrent liabilities	31,561,375	22,774,792
Total liabilities	\$81,212,339	\$102,066,465

The assets of the Company's other consolidated VIEs were not considered significant.

As of September 30, 2018 and December 31, 2017, approximately \$4,200,000 and \$18,000,000, respectively, of restricted cash is related to an amount that, as a result of the Merger between ApolloMed and NMM (see Note 3), was held for distribution to former NMM shareholders.

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 Part I, Item 1, "Financial Statements" of this Quarterly Report on Form 10-Q. 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 Annual Report on Form 10-K for the year ended December 31, 2017, filed with the U.S. Securities and Exchange Commission ("SEC") on April 2, 2018.

The following management's discussion and analysis contain forward-looking statements that reflect our plans, estimates, and beliefs as discussed in the "Forward-Looking Statements" at the beginning of this Quarterly Report on Form 10-Q. Our actual results could differ materially from those plans, estimates, and beliefs. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this Quarterly Report on Form 10-Q as well as the factors discussed in Part I, Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2017.

Overview

We, together with our affiliated physician groups and consolidated entities, are a physician-centric integrated population health management company providing coordinated, outcomes-based medical care in a cost-effective manner and serving patients in California, the majority of whom are covered by private or public insurance provided through Medicare, Medicaid and health maintenance organizations ("HMOs"), with a small portion of our revenue coming from non-insured patients. We provide care coordination services to each major constituent of the healthcare delivery system, including patients, families, primary care physicians, specialists, acute care hospitals, alternative sites of inpatient care, physician groups and health plans. Our physician network consists of primary care physicians, specialist physicians and hospitalists. We operate primarily through Apollo Medical Holdings, Inc. ("ApolloMed") and the following subsidiaries: Network Medical Management ("NMM"), Apollo Medical Management, Inc. ("AMM"), APA ACO, Inc. ("APAACO") and Apollo Care Connect, Inc. ("Apollo Care Connect"), and their consolidated entities, including consolidated VIEs.

Led by a management team with over a decade of experience, we have built a company and culture that is focused on physicians providing high-quality medical care, population health management and care coordination for patients. We believe that we are well-positioned to take advantage of the growing trends in the U.S. healthcare industry towards value-based and results-oriented healthcare focusing on the triple aim of patient satisfaction, high-quality care and cost efficiency.

Through our next generation accountable care organization (“NGACO”) model and a network of independent practice associations (“IPAs”) with more than 4,000 contracted physicians, which physician groups have agreements with various health plans, hospitals and other HMOs, we are currently responsible for coordinating the care for over one million patients in California. These covered patients are comprised of managed care members whose health coverage is provided through their employers or who have acquired health coverage directly from a health plan or as a result of their eligibility for Medicaid or Medicare benefits. Our managed patients benefit from an integrated approach that places physicians at the center of patient care and utilizes sophisticated risk management techniques and clinical protocols to provide high-quality, cost effective care. To implement a patient-centered, physician-centric experience, we also have other integrated and synergistic operations, including (i) MSOs that provide management and other services to our affiliated IPAs, (ii) outpatient clinics and (iii) hospitalists that coordinate the care of patients in hospitals.

Recent Developments

The following describes certain developments from 2017 to date that are important to understanding our overall results of operations and financial condition.

Consummation of Merger

On December 8, 2017, ApolloMed completed its business combination with NMM following the satisfaction or waiver of the conditions set forth in the Agreement and Plan of Merger, dated as of December 21, 2016 (as amended on March 30, 2017 and October 17, 2017), among ApolloMed, Apollo Acquisition Corp. (“Merger Sub”), NMM and Kenneth Sim, as the shareholders’ representative (the “Merger Agreement”), pursuant to which Merger Sub merged with and into NMM, with NMM surviving as a wholly owned subsidiary of ApolloMed (the “Merger”). The combination of ApolloMed and NMM brings together two complementary healthcare organizations to form one of the nation’s largest integrated population health management companies. As a result of the Merger, NMM now is a wholly-owned subsidiary of ApolloMed and former NMM shareholders own a majority of the issued and outstanding common stock of ApolloMed. For accounting purposes, the Merger is treated as a “reverse acquisition” and NMM is considered the accounting acquirer. Accordingly, as of the closing of the Merger, NMM’s historical results of operations replaced ApolloMed’s historical results of operations for periods prior to the Merger, and the results of operations of both companies are included in the accompanying condensed consolidated financial statements for periods following the Merger.

In connection with the Merger, ApolloMed issued an aggregate of 27,357,605 shares of its common stock to the former stockholders of NMM (ApolloMed held back an aggregate of 3,039,609 shares of its common stock, or 10% of the total number of shares issued to former NMM stockholders, to secure NMM's potential indemnification obligations under the Merger Agreement). Accordingly, immediately following the Merger, ApolloMed's stockholders prior to the Merger continued to hold 6,109,205 shares of its common stock, and the former NMM stockholders held 27,357,605 shares (excluding the 10% hold-back). In connection with the Merger, ApolloMed also issued to the former NMM stockholders (i) common stock warrants to purchase 850,000 shares of ApolloMed's common stock, exercisable at \$11.00 per share, and (ii) common stock warrants to purchase 900,000 shares of common stock, exercisable at \$10.00 per share. ApolloMed had previously issued a convertible promissory note (the "Alliance Note") to Alliance Apex, LLC in the principal amount of \$4,990,000. Following the Merger, the Alliance Note and accrued interest automatically converted into 520,081 shares of ApolloMed's common stock. The former NMM stockholders also own Series A and Series B warrants to purchase an aggregate of 1,111,111 shares and 555,555 shares of ApolloMed's common stock, respectively. Under the Agreement and Plan of Merger, ApolloMed also agreed to indemnify the former NMM Shareholders under certain circumstances. If these indemnification obligations are triggered, ApolloMed will be required to issue up to 3,039,609 shares of ApolloMed common stock to the former NMM stockholders on a pro rata basis based on their relative proportionate pre-Merger ownership interests in NMM. Following the Merger, NMM, as ApolloMed's subsidiary, continues to hold 1,111,111 shares of ApolloMed's Series A preferred stock and 555,555 shares of ApolloMed's Series B preferred stock, which shares are considered to be issued but not outstanding.

Post-Merger Integration

Following the closing of the Merger, we evaluated the sustainability of our subsidiaries and VIEs and opportunities to strengthen our operations. As a result of such evaluation, we decided to consolidate our operations and restructure the operations of certain entities, including winding down the Bay Area Hospitalist Associates.

Conversion to NGACO

We operated three MSSP ACOs, AP-ACO, APCN-ACO and Apollo-ACO. Following the establishment of APAACO, our NGACO, and the selection of APAACO by CMS to participate in the NGACO Model, we have converted physicians and patients from our MSSP ACOs to our NGACO. As providers continue to enroll in our NGACO and their patients become beneficiaries under our NGACO, we have transitioned the three MSSP ACOs' operations. To position ourselves to participate in the NGACO Model, we have devoted, and intend to continue to devote, significant effort and resources, financial and otherwise, to the NGACO Model, and refocused away from certain other parts of our historic business and revenue streams, which will receive less emphasis in the future and could result in reduced revenue from these activities. As of the filing date of this Report, our NGACO continue to be eligible for receiving AIPBP payments at the current rate of approximately \$5.5 million per month effective October 1, 2018. We currently anticipate that revenue from the NGACO Model will be a significant source of revenue for us in fiscal 2018 and future periods, although no assurance of that can be given at this time. AP-ACO terminated its participation in the MSSP effective as of December 31, 2016, and APCN-ACO and Apollo-ACO terminated their participation in the MSSP

effective as of December 31, 2017.

Strategic Transactions

Effective December 1, 2017, NMM entered into a ten-year Management Services Agreement (“MSA”) with Accountable Health Care IPA (“Accountable IPA”). Accountable IPA is one of the largest IPAs in California and currently provides quality healthcare services to more than 160,000 patients through a network of over 450 primary care physicians and 1,700 specialty care physicians and has multiple product lines, including Medicare Advantage, Commercial and Medi-Cal managed care. Pursuant to the terms of the ten-year MSA, NMM is responsible for managing all health plan members assigned or delegated to Accountable IPA, as well as all hospital risk pools. This effort is expected to be supported by our population health management platform, which includes administrative, clinical and technology capabilities. One of our VIEs has extended a line of credit of up to \$18 million to George M. Jayatilaka, M.D. a shareholder of Accountable IPA, to fund the working capital needs of Accountable IPA. On September 21, 2018, APC and NMM each exercised their option to convert their respective \$5 million loan into shares of Accountable capital stock. As a result, APC’s \$5 million loan was converted into a 25% equity interest with the remaining \$5 million loan held by NMM to be converted into an equity interest that will be determined based on a third party valuation of Accountable’s current enterprise value, which has not been completed as of the filing date of this Report. Concurrent with the funding, the board of directors of Accountable IPA was reconstituted to be comprised of two directors, including one director appointed by one of our VIEs APC-LSMA.

NMM entered into a MSA with Joseph M. Molina, M.D., Professional Corporation – Southern California dba Golden Shore Medical Group, a California professional corporation (“GSMG”). GSMG currently provides healthcare services to more than 100,000 patients and operates 17 clinics in four California counties. NMM is entitled to receive management fees under the MSA. The initial term of the MSA commenced on January 1, 2018 and will expire on December 31, 2020. The MSA may be extended at the option of GSMG for an additional two-year term following the expiration of the initial term.

We have expanded our operations, including hiring a significant number of employees and engaging other personnel, in preparation of serving additional patients that we are responsible for managing under the Accountable IPA and GSMG MSAs.

Sixth Amendment to the NNA Registration Rights Agreement

In March 2018, ApolloMed entered into a Sixth Amendment (the “Sixth Amendment”) of the Registration Rights Agreement, dated as of March 28, 2014, with NNA of Nevada, Inc. (“NNA”), an affiliate of Fresenius Medical Care North America. The Sixth Amendment extended (i) the deadline by which ApolloMed must file a resale registration statement covering NNA’s registrable ApolloMed securities, and (ii) the date by which the registration statement is required to be declared effective by the SEC. Under the Sixth Amendment, ApolloMed is now required to file the registration statement by November 30, 2018 and, using its commercially reasonable best efforts, to cause that registration statement to be declared effective by May 31, 2019.

Compliance with the California Department of Managed Health Care (“DMHC”)

As risk-bearing organizations, APC and MMG are required to follow the regulations of the California DMHC, including maintenance of minimum working capital, tangible net equity (“TNE”), cash-to-claims ratio and claims payment requirements. As of September 30, 2018 and December 31, 2017, APC was in compliance with these regulations, but MMG was not in compliance with these regulations. As a result, the California DMHC has required MMG to develop and implement a corrective action plan (“CAP”) for such deficiency. MMG received confirmation from substantially all of MMG’s direct contracted health plans, that they have moved membership out of MMG effective May 1, 2018, and as a result, as of September 30, 2018, MMG was no longer required to be in compliance with these regulations.

Purchase of Interest in New Integrated Care Center

APC, NMM and College Street Investment LP, a California limited partnership (“CSI”) are members of 531 W. College LLC (APC and NMM each own a 25% interest in 531 W. College, LLC). In June 2018, 531 W. College, LLC purchased a recently closed hospital in the City of Los Angeles for \$33,347,679. APC and NMM each contributed their pro rata share of the purchase price (i.e. \$8,336,920, each). The plan is to convert the facility into an integrated care center, complete with a 24-hour urgent care center, multispecialty clinics, imaging center, diagnostic lab, pharmacy, behavioral care center, infusion center and also provide telemedicine services. When fully operational, the center will be a one-stop healthcare destination that can provide coordinated, patient-centered care, and maintain the necessary health care services for the community. Contingent upon obtaining the requisite licenses, certain portions of

the repurposed facility could be operational during the fourth quarter of 2018. CSI is an unaffiliated entity.

Key Financial Measures and Indicators

Operating Revenues

Our revenue primarily consists of capitation revenue, risk pool settlements and incentives, NGACO All-Inclusive Population-Based Payments (“AIPBP”) revenue, management fee income and fee-for-services (“FFS”) revenue. The form of billing and related risk of collection for such services may vary by type of revenue and the customer.

Operating Expenses

Our largest expense is the patient care cost paid to contracted physicians, and the cost of providing management and administrative support services to our affiliated physician groups. These services include payroll, benefits, human resource services, physician practice billing, revenue cycle services, physician practice management, administrative oversight, coding services, and other consulting services.

Results of Operations

As noted above, although ApolloMed was the legal acquirer in the Merger, for accounting purposes, the Merger is treated as a “reverse acquisition,” and NMM is considered the accounting acquirer and ApolloMed is the accounting acquiree. Accordingly, (i) the financial statements included in Item 1 above, and the description of our results of operations set forth below for the three and nine month periods in 2017 reflect the operations of NMM alone during those periods, and (ii) the financial statements and the description of our results of operations for the three and nine month periods in 2018 reflect the combined operations of ApolloMed and NMM. Because the financial results for the reported periods in 2017 exclude the results of ApolloMed, the following results of operations in 2018 are not directly comparable to our results of operations in the 2017 periods.

Apollo Medical Holdings, Inc.

Consolidated Statements of Income

(Unaudited)

	For the Three Months Ended				
	September 30, 2018	September 30, 2017	\$ Change	% Change	
REVENUE					
Capitation, net	\$90,612,720	\$66,130,166	\$24,482,554	37	%
Risk pool settlements and incentives	57,788,932	21,498,540	36,290,392	169	%
Management fee income	12,851,178	6,449,329	6,401,849	99	%
Fee-for-services, net	5,665,053	2,729,295	2,935,758	108	%
Other income	362,527	326,951	35,576	11	%
Total revenue	167,280,410	97,134,281	70,146,129	72	%
EXPENSES:					
Cost of services	96,828,245	66,736,945	30,091,300	45	%
General and administrative expenses	9,032,024	4,380,878	4,651,146	106	%
Depreciation and amortization	4,843,037	4,764,783	78,254	2	%
Total expenses	110,703,306	75,882,606	34,820,700	46	%
INCOME FROM OPERATIONS	56,577,104	21,251,675	35,325,429	166	%
OTHER INCOME (EXPENSES):					
Loss from equity method investments	(4,215,056)	(1,461,096)	(2,753,960)	188	%
Interest expense	(178,318)	(14,984)	(163,334)	1090	%
Interest income	343,369	226,864	116,505	51	%
Change in fair value of derivative instrument	-	(406,665)	406,665	-100	%

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

Other income	684,283	94,471	589,812	624	%
Total other expense, net	(3,365,722)	(1,561,410)	(1,804,312)	116	%
INCOME BEFORE PROVISION FOR INCOME TAXES	53,211,382	19,690,265	33,521,117	170	%
Provision for income taxes	14,585,942	7,865,902	6,720,040	85	%
NET INCOME	\$38,625,440	\$11,824,363	26,801,077	227	%
Net income attributable to noncontrolling interests	29,519,043	6,203,991	23,315,052	376	%
NET INCOME ATTRIBUTABLE TO APOLLO MEDICAL HOLDINGS, INC.	\$9,106,397	\$5,620,372	\$3,486,025	62	%

Apollo Medical Holdings, Inc.**Consolidated Statements of Income****(Unaudited)**

	For the Nine Months Ended		\$ Change	% Change	
	September 30, 2018	September 30, 2017			
REVENUE					
Capitation, net	\$266,834,186	\$193,725,886	\$73,108,300	38	%
Risk pool settlements and incentives	89,641,885	40,994,338	48,647,547	119	%
Management fee income	37,297,358	19,274,141	18,023,217	94	%
Fee-for-services, net	19,092,631	8,437,756	10,654,875	126	%
Other income	1,585,623	1,349,922	235,701	17	%
Total revenue	414,451,683	263,782,043	150,669,640	57	%
EXPENSES:					
Cost of services	281,721,686	192,951,753	88,769,933	46	%
General and administrative expenses	31,481,810	15,434,640	16,047,170	104	%
Depreciation and amortization	14,819,627	14,407,113	412,514	3	%
Total expenses	328,023,123	222,793,506	105,229,617	47	%
INCOME FROM OPERATIONS	86,428,560	40,988,537	45,440,023	111	%
OTHER INCOME (EXPENSES):					
Loss from equity method investments	(2,573,219)	(28,936)	(2,544,283)	8793	%
Interest expense	(374,002)	(16,370)	(357,632)	2185	%
Interest income	953,003	618,641	334,362	54	%
Change in fair value of derivative instrument	-	(278,886)	278,886	-100	%
Other income	1,112,935	122,609	990,326	808	%
Total other (expense) income, net	(881,283)	417,058	(1,298,341)	-311	%
INCOME BEFORE PROVISION FOR INCOME TAXES	85,547,277	41,405,595	44,141,682	107	%
Provision for income taxes	23,338,589	16,491,982	6,846,607	42	%
NET INCOME	\$62,208,688	\$24,913,613	37,295,075	150	%
Net income attributable to noncontrolling interests	48,277,734	12,948,837	35,328,897	273	%
NET INCOME ATTRIBUTABLE TO APOLLO MEDICAL HOLDINGS, INC.	\$13,930,954	\$11,964,776	1,966,178	16	%

Net Income Attributable to Apollo Medical Holdings, Inc.

Our net income attributable to Apollo Medical Holdings, Inc. for the three months ended September 30, 2018 was \$9.1 million, as compared to \$5.6 million for the same period in 2017, an increase of \$3.5 million, or 62%. Our net income attributable to Apollo Medical Holdings, Inc. for the nine months ended September 30, 2018 was \$13.9 million, as compared to \$12.0 million for the same period in 2017, an increase of \$1.9 million, or 16%.

Physician Groups and Patients

As of September 30, 2018 and 2017, the total number of affiliated physician groups managed by us was 12 and 9 groups, respectively, and the total number of patients for whom we managed the delivery of healthcare services was 1,039,859 and 627,335, respectively.

Revenue

Our revenue for the three months ended September 30, 2018 was \$167.3 million, as compared to \$97.1 million for the same period in 2017, an increase of \$70.2 million, or 72%. The increase in revenue was attributable to (i) an increase of \$2.4 million in capitation revenue due to increases in membership and capitation rates, (ii) an increase of \$30.4 million in risk pool revenue due to favorable healthcare utilization trends and the adoption of ASC 606 (see Note 13), (iii) an increase in management fee income of \$5.3 million, which was mainly driven by an increase in the number of patients served by our affiliated physician groups, (iv) an increase in fees-for-service revenue of \$0.8 million, which was mainly due to increased surgery center income from the increase in patients and fees received. The remaining increase is primarily due to ApolloMed's pre-Merger operations, which did not have any comparable results from the accounting acquirer (NMM) for the three months ended September 30, 2017.

Our revenue for the nine months ended September 30, 2018 was \$414.5 million, as compared to \$263.8 million for the same period in 2017, an increase of \$150.7 million, or 57%. The increase in revenue was attributable to (i) an increase of \$8.3 million in capitation revenue due to increases in membership and capitation rates, (ii) an increase of \$43.1 million in risk pool revenue due to favorable healthcare utilization trends and the adoption of ASC 606 (see Note 13), (iii) an increase in management fee income of \$13.4 million, which was mainly driven by an increase in the number of patients served by our affiliated physician groups, (iv) an increase in fees-for-service revenue of \$3.3 million, which was mainly due to increased surgery center income from the increase in patients and fees received. The remaining increase is primarily due to ApolloMed's pre-Merger operations, which did not have any comparable results from the accounting acquirer (NMM) for the nine months ended September 30, 2017.

Cost of Services

Expenses related to cost of services for the three months ended September 30, 2018 were \$96.8 million, as compared to \$66.7 million for the same period in 2017, an increase of \$30.1 million, or 45%. Cost of services for the 2018 period consist of expenses incurred by NMM, ApolloMed and MMG collectively, whereas, cost of services for 2017 period consist solely of expenses incurred by NMM. ApolloMed and MMG's operations incurred costs of \$24.2 million for the three months ended September 30, 2018, which are included in the foregoing \$96.8 million of costs. In addition to the increase in cost of services due to the operations of ApolloMed and MMG, we also had an increase of \$1.3 million in hospitalist expense, an increase of \$6.5 million in personnel, and an increase of \$5.3 million in medical claims, capitation and other health services expense. This overall increase was offset by the decrease of \$7.2 million for provider bonus and incentive for the three months ended September 30, 2018 compared to the three months ended September 30, 2017.

Expenses related to cost of services for the nine months ended September 30, 2018 were \$281.7 million, as compared to \$193.0 million for the same period in 2017, an increase of \$88.7 million, or 46%. Cost of services for the 2018 period consist of expenses incurred by NMM, ApolloMed and MMG collectively, whereas, cost of services for 2017 period consist solely of expenses incurred by NMM. ApolloMed and MMG's operations incurred costs of \$75.8 million for the nine months ended September 30, 2018, which are included in the foregoing \$281.7 million of costs and are primarily related to APAACO. In addition to the increase in cost of services due to the operations of ApolloMed and MMG, we also had an increase of \$12.1 million in personnel costs, an increase of \$3.7 million in hospitalist expense, and an increase of \$17.9 million in medical claims, capitation and other health services expense. This overall increase was offset by the decrease of \$20.8 million for provider bonus and incentive for the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017.

General and Administrative Expenses

General and administrative expenses for the three months ended September 30, 2018 were \$9.0 million, as compared to \$4.4 million for the same period in 2017, an increase of \$4.6 million, or 106%. The overall increase is mainly due to ApolloMed and MMG's general and administrative expenses of \$1.9 million for the three months ended September 30, 2018, none of which are included for the same period of the prior year because only NMM's operations are included in the 2017 periods. In addition to the increase in general and administrative expenses due to the operations of ApolloMed and MMG, we also had an increase of \$2.7 million in general and administrative expenses due to the growth of the business for the three months ended September 30, 2018.

General and administrative expenses for the nine months ended September 30, 2018 were \$31.5 million, as compared to \$15.4 million for the same period in 2017, an increase of \$16.1 million, or 104%. The overall increase is mainly due to ApolloMed and MMG's administrative expenses of \$9.5 million for the nine months ended September 30, 2018, none of which are included for the same period of the prior year because only NMM's operations are included in the 2017 periods. In addition to the increase in general and administrative expenses due to the operations of ApolloMed and MMG, we also had an increase of \$6.6 million in general and administrative expenses due to the growth of the business for the nine months ended September 30, 2018.

Depreciation and Amortization

Depreciation and amortization expense for the three months ended September 30, 2018 and 2017 was \$4.8 million. This amount includes depreciation of property and equipment and the amortization of intangible assets from the Merger.

Depreciation and amortization expense for the nine months ended September 30, 2018 was \$14.8 million, as compared to \$14.4 million for the same period in 2017, an increase of \$0.4 million, or 3%. The increase was attributable to additional property and equipment purchased during 2017 and the amortization of intangible assets from the Merger, offset by a reduction of intangible assets from impairment recorded in the fourth quarter of 2017. The remaining difference is primarily due to ApolloMed's pre-Merger operations, which did not have any comparable results from the accounting acquirer (NMM) for the nine months ended September 30, 2017.

Loss from Equity Method Investments

Loss from equity method investments for the three months ended September 30, 2018 was \$4.2 million, as compared to \$1.5 million for the same period in 2017. This increase was primarily due to losses from our investments in UCI of \$4.6 million offset by income from our investments in LMA's IPA line of business, DMG, and PASC of \$0.4 million, for the three months ended September 30, 2018 as compared to losses from our investments in UCI of \$1.9 million offset by income from our investments in LMA's IPA line of business, DMG, and PASC of \$0.3 million in the similar period of 2017.

Loss from equity method investments for the nine months ended September 30, 2018 was \$2.6 million, as compared to \$29,000 for the same period in 2017. This increase is mainly due to the losses of \$0.8 million and \$2.9 million from our investments in LMA's IPA line of business and UCI, respectively. These losses were offset by income of \$0.8 million and \$0.3 million from our investments in DMG and PASC, respectively, for the nine months ended September 30, 2018.

Interest Expense

Interest expense for the three and nine months ended September 30, 2018 of \$0.2 million and \$0.4 million, respectively, and reflects interest on debt obligations associated with bank loans. NMM had de minimus interest expense in the same periods of 2017.

Interest Income

Interest income for the three and nine months ended September 30, 2018 increased by approximately \$0.1 million and \$0.3 million, respectively, as compared to the same period in 2017 mainly due to an increase in cash held in money market accounts which resulted in an increase in interest earned and the interest from notes receivable.

Change in Fair Value of Derivative Instruments

Loss from change in fair value of derivative instruments for the three and nine months ended September 30, 2017 was approximately \$0.4 million and \$0.3 million, respectively, mainly due to changes in stock price of ApolloMed's common stock during the nine months ended September 30, 2017 with no recurring amounts for the same periods in 2018.

Other Income

Other income for the three and nine months ended September 30, 2018 was approximately \$0.7 million and \$1.1 million, respectively, as compared to approximately \$0.1 million and \$0.1 million, respectively, for the same periods in 2017 mainly due to dividend income and increased rental income received.

Provision for Income Taxes

Provision for income taxes was \$14.6 million for the three months ended September 30, 2018, as compared to \$7.9 million for the same period in 2017, an increase of \$6.7 million or 85%. The increase is due to the increase in taxable income, as described above, and was partially offset by the decrease in the federal statutory tax rate of 35% to 21% enacted on December 22, 2017.

Provision for income taxes was \$23.3 million for the nine months ended September 30, 2018, as compared to \$16.5 million for the same period in 2017, an increase of \$6.8 million, or 42%. The increase is due to the increase in taxable income, as described above, and was partially offset by the decrease in the federal statutory tax rate of 35% to 21% enacted on December 22, 2017.

Net Income Attributable to Noncontrolling Interests

Net income attributable to noncontrolling interests was \$29.5 million for the three months ended September 30, 2018, compared to \$6.2 million for the three months ended September 30, 2017, an increase of \$23.3 million, or 376%. This increase was primarily due to net income generated from APC mainly attributable to its increased revenue and certain tax benefits.

Net income attributable to noncontrolling interests was \$48.3 million for the nine months ended September 30, 2018, compared to \$12.9 million for the nine months ended September 30, 2017, an increase of \$35.4 million, or 273%. This increase was primarily due to net income generated from APC mainly attributable to its increased revenue and certain tax benefits.

Liquidity and Capital Resources

Cash, cash equivalents and investment in marketable securities at September 30, 2018 totaled \$120.9 million. Working capital totaled \$110.6 million at September 30, 2018, compared to \$34.6 million at December 31, 2017, an increase of \$76.0 million, or 220%.

We have historically financed our operations primarily through internally generated funds. We generate cash primarily from capitations, risk pool settlements and incentives, fees for medical management services provided to our affiliated physician groups, as well as fee-for-service reimbursements. We generally invest cash in money market accounts,

which are classified as cash and cash equivalents. We believe we have sufficient liquidity to fund our operations at least through the next twelve months.

Our cash, cash equivalents and restricted cash increased by \$6.2 million from \$118.5 million at December 31, 2017 to \$124.7 million at September 30, 2018. Cash provided by operating activities during the nine months ended September 30, 2018 was \$31.9 million. The cash generated from operations during the nine months ended September 30, 2018 is a function of net income of \$62.2 million, adjusted for the following non-cash operating items: depreciation and amortization of \$14.8 million, share-based compensation of \$1.2 million, loss from disposal of property and equipment of approximately \$42,000, loss from equity method investments of approximately \$2.6 million and change in deferred tax liability of \$7.1 million. Our cash provided by operating activities includes a net decrease in operating assets and liabilities of \$56.2 million.

Cash used in investing activities during the nine months ended September 30, 2018 was \$20.2 million, due to cash outflow from advances to related parties of \$2.5 million, purchase of investments of \$17.0 million and purchases of property and equipment of \$0.9 million, offset with dividends received of \$0.2 million during the nine months ended September 30, 2018.

Cash used in financing activities during the nine months ended September 30, 2018 was \$5.4 million reflecting dividend payments of \$16.7 million and repayment of bank loans and capital lease payments of \$0.5 million, offset by proceeds from exercise of stock options and warrants of \$3.6 million, borrowings on our line of credit of \$8.0 million and proceeds from the sale of VIE stock of \$0.2 million during the nine months ended September 30, 2018.

Credit Facilities

Lines of Credit

NMM has a credit facility with Preferred Bank to borrow up to \$20,000,000 that matures on June 22, 2020. The credit facility was subsequently amended on September 1, 2018 to temporarily increase the loan availability from \$20,000,000 to \$27,000,000 for the period from September 1, 2018 through January 31, 2019 to facilitate the issuance of an additional standby letter of credit for the benefit of CMS. The amount outstanding as of September 30, 2018 and December 31, 2017 was \$13,000,000 and \$5,000,000, respectively and is classified as long-term and current liabilities, respectively. The interest rate is based on the Wall Street Journal “prime rate” plus 0.125%, or 5.375% and 4.625%, as of September 30, 2018 and December 31, 2017, respectively. As of December 31, 2017, NMM was not in compliance with certain financial debt covenant requirements contained in the loan agreement. However, as of September 30, 2018, NMM was in compliance with such financial debt covenant requirements. As of September 30, 2018 and December 31, 2017, availability under this line of credit was \$7,300,671 and \$8,300,671, respectively.

NMM has a non-revolving line of credit facility with Preferred Bank, which provides for loan availability of up to \$20,000,000 with a maturity date of September 5, 2019. The interest rate is based on the Wall Street Journal “prime rate” plus 0.125%, or 5.375% as of September 30, 2018. The line of credit was obtained to finance potential acquisitions, with each drawdown to be converted into a five-year term loan with monthly principal payments plus interest based on a five-year amortization schedule, the availability of the line of credit is reduced accordingly based on the aggregate amount drawn. As of September 30, 2018, availability under this line of credit was \$20,000,000.

APC has a credit facility with Preferred Bank to borrow up to \$10,000,000 that matures on June 22, 2020. No amounts have been drawn on this facility. The interest rate is based on the Wall Street Journal “prime rate” plus 0.125%, or 5.375% and 4.625%, as of September 30, 2018 and December 31, 2017, respectively. As of December 31, 2017, APC was not in compliance with certain financial debt covenant requirements contained in the loan agreement. However, as of September 30, 2018, APC was in compliance with such financial debt covenant requirements. As of both September 30, 2018 and December 31, 2017, availability under this line of credit was \$9,694,984. Because APC is a VIE of NMM, loans obtained by APC can only be used to fund the operations of that company, and, accordingly, we are not liable for the repayment of any of APC’s borrowings under the Preferred Bank credit facility. In addition, this credit facility is not available to support NMM’s liquidity needs, and can only be used for APC.

In December 2010, ICC borrowed \$4,600,000 from a financial institution. The interest rate is based on the Wall Street Journal “prime rate,” but cannot be less than 4.5% per annum. The loan matures on December 31, 2018. As of September 30, 2018 and December 31, 2017, the balance outstanding was \$159,906 and \$510,391, respectively.

Intercompany Loans

Each of AMH, MMG, BAHA, ACC, AKM and SCHC has entered into an Intercompany Loan Agreement with AMM under which AMM has agreed to provide a revolving loan commitment to each such affiliated entities in an amount set forth in each Intercompany Loan Agreement. Each Intercompany Loan Agreement provides that AMM’s obligation to make any advances automatically terminates concurrently with the termination of the management agreement with the applicable affiliated entity. In addition, each Intercompany Loan Agreement provides that (i) any material breach by Dr. Hosseinion of the applicable Physician Shareholder Agreement or (ii) the termination of the management agreement with the applicable affiliated entity constitutes an event of default under the Intercompany Loan Agreement. All the intercompany loans have been eliminated in consolidation. The following is a summary of the intercompany loans during the nine-month period ended September 30, 2018:

		Nine Months Ended September 30, 2018						
		Interest rate		Maximum			Principal Paid	Interest Paid
Entity	Facility	Expiration	per Annum	Balance	Ending Balance	During Period	During Period	During Period
AMH	\$ 10,000,000	09/30/2018	10	% \$ 5,150,678	\$ 4,754,805	\$ (1,248,083)	\$ -
ACC	1,000,000	07/31/2018	10	% 1,287,843	1,287,843	-		-
MMG	3,000,000	11/22/2021	10	% 2,992,305	2,992,305	(1,188)	-
AKM	5,000,000	05/30/2019	10	% -	-	-		-
SCHC	5,000,000	07/21/2019	10	% 3,804,599	3,804,599	(462,656)	-
BAHA	250,000	07/22/2021	10	% 4,807,584	4,181,656	(630,000)	-
	\$ 24,250,000			\$ 18,043,009	\$ 17,021,208	\$ (2,341,927)	\$ -

Critical Accounting Policies and Estimates

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) requires our management to make judgments, assumptions and estimates that affect the amounts of revenue, expenses, income, assets and liabilities, reported in our condensed consolidated financial statements and accompanying notes. Actual results and the timing of recognition of such amounts could differ from those judgments, assumptions and estimates. In addition, judgments, assumptions and estimates routinely require adjustment based on changing circumstances and the receipt of new or better information. Understanding our accounting policies and the extent to which our management uses judgment, assumptions and estimates in applying these policies, therefore, is integral to understanding our financial statements. Critical accounting policies and estimates 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 summarize our most significant accounting policies in relation to the accompanying condensed consolidated financial statements in Note 2 thereto. Please also refer to 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 December 31, 2017.

The Company recorded a net increase to beginning retained earnings and noncontrolling interest in APC of \$1.0 million and \$7.4 million, respectively, as of January 1, 2018 due to the cumulative impact of adopting Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (Topic 606). The impact to beginning retained earnings and noncontrolling interest was primarily driven by the determination of risk pool settlement revenue (including the estimation of constraints and incurred but not reported completion factor). The adoption of this ASU did not have a significant impact on revenue when comparing the amount of revenue recognized for the nine months ended September 30, 2018 to the revenue that would have been recognized under the prior revenue standard ASC 605, such that comparisons of revenues and operating profit performance between periods are not affected by the adoption of this ASU. Refer to Notes 2 and 13 to the accompanying condensed consolidated financial statements.

New Accounting Pronouncements

See Note 2 to the accompanying condensed consolidated financial statements for recently issued accounting pronouncements, including information on new accounting standards and the future adoption of such standards.

Off Balance Sheet Arrangements

As of September 30, 2018, we had no off-balance sheet arrangements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

We conducted an evaluation, under the supervision and with the participation of management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this quarterly report. Based on this evaluation, our co-chief executive officers and chief financial officer concluded that, as of the evaluation date, our disclosure controls and procedures were effective at the reasonable assurance level.

Our disclosure controls and procedures are designed to ensure that the information relating to our company, including our consolidated subsidiaries, required to be disclosed in our SEC reports is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and is accumulated and communicated to our management, including our co-chief executive officers and chief financial officer, as appropriate to allow for timely decisions regarding required disclosure.

Our management, including our co-chief executive officers and chief financial officer, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, and must reflect the facts that there are resource constraints and that the benefits of controls have to be considered relative to their costs. The inherent limitations in internal control over financial reporting include the realities that judgments can be faulty and that breakdowns can occur because of simple error or mistake. Controls also can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of controls. In addition, over time, controls may become inadequate because of changes in circumstances, or the degree of compliance with the policies and procedures may deteriorate.

Changes in Internal Control Over Financial Reporting

There have not been any changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended) during the period covered by this quarterly report that have materially affected, or are 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 from time to time become involved in pending and threatened legal actions and proceedings, most of which involve claims of medical malpractice related to medical services that are provided by our affiliated hospitalists. Many of the Company's payor and provider contracts are complex in nature and may be subject to differing interpretations regarding amounts due for the provision of medical services, which may not come to light until a substantial period of time has passed following contract implementation. We may also become subject to other lawsuits which could involve significant claims and/or significant defense costs, but as of the date of this

Quarterly Report on Form 10-Q, except as disclosed, we are not a party to any lawsuit or proceeding, which in the opinion of management is expected to individually or in the aggregate have a material adverse effect on us or our business. Nonetheless, the resolution of any claim or litigation is subject to inherent uncertainty and could have a material adverse effect on the Company's financial condition, cash flows or results of operations.

On or about March 23, 2018 and April 3, 2018, a Demand for Arbitration and an Amended Demand for Arbitration were filed by Prospect Medical Group, Inc. and Prospect Medical Systems, Inc. (collectively, "Prospect") against MMG, ApolloMed and AMM with Judicial Arbitration Mediation Services in California, arising out of MMG's purported business plans, seeking damages in excess of \$5 million, and alleging breach of contract, violation of unfair competition laws, and tortious interference with Prospect's current and future economic relationships with its health plans and their members. MMG, ApolloMed and AMM each dispute the allegations and intend to vigorously defend against this matter.

ITEM 1A. RISK FACTORS

Our business, financial condition and operating results are affected by a number of factors, whether currently known or unknown, including risks specific to us or the healthcare industry as well as risks that affect businesses in general. In addition to the information and risk factors set forth in this Quarterly Report, you should carefully consider the factors discussed in Part I, Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC on April 2, 2018. The risks disclosed in such Annual Report and in this Quarterly Report could materially adversely affect our business, financial condition, cash flows or results of operations and thus our stock price. While we believe there have been no material changes in our risk factors from those disclosed in the Annual Report, additional risks and uncertainties not currently known or we currently deem to be immaterial may also materially adversely affect our business, financial condition or results of operations.

These risk factors may be important to understanding other statements in this Quarterly Report and should be read in conjunction with the condensed consolidated financial statements and related notes in Part I, Item 1, "Financial Statements" and Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Quarterly Report. Because of such risk factors, as well as other factors affecting the Company's financial condition and operating results, past financial performance should not be considered to be a reliable indicator of future performance, and investors should not use historical trends to anticipate results or trends in future periods.

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

During the nine months ended September 30, 2018, the Company issued an aggregate of 242,644 shares of common stock and received approximately \$1,828,000 from the exercise of certain warrants at an exercise price ranging from \$4.00 - \$10.00 per share.

The foregoing issuances were exempt from the registration provisions of the Securities Act of 1933, as amended, pursuant to Section 4(a)(2) thereof, and/or Regulation D promulgated thereunder.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The following exhibits are either incorporated by reference into or filed or furnished with this Quarterly Report on Form 10-Q, as indicated below.

Exhibit No.	Description
------------------------	--------------------

<u>2.1</u> †	<u>Agreement and Plan of Merger, dated December 21, 2016, among Apollo Medical Holdings, Inc., Network Medical Management, Inc., Apollo Acquisition Corp. and Kenneth Sim, M.D. (the “Merger Agreement”) (incorporated herein by reference to Annex A to the joint proxy statement/prospectus filed pursuant to Rule 424(b)(3) on November 15, 2017 that is a part of a Registration Statement on Form S-4).</u>
--------------	--

<u>2.2</u>	<u>Amendment to the Merger Agreement, dated March 30, 2017, among Apollo Medical Holdings, Inc., Network Medical Management, Inc., Apollo Acquisition Corp. and Kenneth Sim, M.D. (incorporated herein by reference to Annex A to the joint proxy statement/prospectus filed pursuant to Rule 424(b)(3) on November 15, 2017 that is a part of a Registration Statement on Form S-4).</u>
------------	---

<u>2.3</u>	
------------	--

Amendment No. 2 to the Merger Agreement, dated October 17, 2017, among Apollo Medical Holdings, Inc., Network Medical Management, Inc., Apollo Acquisition Corp. and Kenneth Sim, M.D. (incorporated herein by reference to Annex A to the joint proxy statement/prospectus filed pursuant to Rule 424(b)(3) on November 15, 2017 that is a part of a Registration Statement on Form S-4).

- 3.1 Restated Certificate of Incorporation (incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on January 21, 2015).
- 3.2 Certificate of Amendment of Restated Certificate of Incorporation (incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on April 27, 2015).
- 3.3 Certificate of Amendment of Restated Certificate of Incorporation (incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on December 13, 2017).
- 3.4 Certificate of Amendment of Restated Certificate of Incorporation (incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed June 21, 2018).
- 3.5 Restated Bylaws (incorporated herein by reference to Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q filed on November 16, 2015).
- 3.6 Amendment to Sections 3.1 and 3.2 of Article III of Bylaws (incorporated herein by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed on December 13, 2017).
- 3.7 Amendment to Sections 3.1 and 3.2 of Article III of Bylaws (incorporated herein by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed on June 21, 2018).
- 4.1 Certificate of Designation of Series A Convertible Preferred Stock (incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on October 19, 2015).
- 4.2 Amended and Restated Certificate of Designation of Apollo Medical Holdings, Inc. (incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on April 4, 2016).

- 4.3 Form of Certificate for Common Stock of Apollo Medical Holdings, Inc., par value \$0.001 per share (incorporated herein by reference to Exhibit 4.1 to the Company's Annual Report on Form 10-K filed on April 2, 2018).
- 4.4 Form of Warrant issued as Merger Consideration pursuant to the Merger Agreement for the purchase of Common Stock of Apollo Medical Holdings, Inc., exercisable at \$11.00 per share (incorporated herein by reference to Exhibit 4.3 to the Company's Annual Report on Form 10-K filed on April 2, 2018).
- 4.5 Form of Warrant issued as Merger Consideration pursuant to the Merger Agreement for the purchase of Common Stock of Apollo Medical Holdings, Inc., exercisable at \$10.00 per share (incorporated herein by reference to Exhibit 4.4 to the Company's Annual Report on Form 10-K filed on April 2, 2018).
- 4.6 Common Stock Purchase Warrant ("Series A Warrant") dated October 14, 2015, originally issued by Apollo Medical Holdings, Inc. to Network Medical Management, Inc. to purchase 1,111,111 shares of common stock and subsequently issued as Merger Consideration pursuant to the Merger Agreement (incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on October 19, 2015).
- 4.7 Form of Assignment of Series A Warrant as Merger Consideration pursuant to the Merger Agreement (incorporated herein by reference to Exhibit 4.6 to the Company's Annual Report on Form 10-K filed on April 2, 2018).
- 4.8 Common Stock Purchase Warrant ("Series B Warrant") dated March 30, 2016, originally issued by Apollo Medical Holdings, Inc. to Network Medical Management, Inc. to purchase 555,555 shares of common stock and subsequently issued as Merger Consideration pursuant to the Merger Agreement (incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on April 4, 2016).
- 4.9 Form of Assignment of Series B Warrant as Merger Consideration pursuant to the Merger Agreement (incorporated herein by reference to Exhibit 4.8 to the Company's Annual Report on Form 10-K filed on April 2, 2018).
- 4.10 Common Stock Purchase Warrant dated November 4, 2016, issued by Apollo Medical Holdings, Inc., to Scott Enderby, D.O. (incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on November 10, 2016).
- 4.11 Common Stock Purchase Warrant dated November 17, 2016, issued by Apollo Medical Holdings, Inc. to Liviu Chindris, M.D. (incorporated herein by reference to Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q filed on February 14, 2017).
- 31.1* Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934.
- 31.2* Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934.
- 31.3* Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934.

32** Certification of Periodic Financial Report by the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. §1350, as adopted pursuant to pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS* XBRL Instance Document

101.SCH* XBRL Taxonomy Extension Schema Document

101.CAL* XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF* XBRL Taxonomy Extension Definition Linkbase

101.LAB* XBRL Taxonomy Extension Label Linkbase Document

101.PRE* XBRL Taxonomy Extension Presentation Linkbase Document

† The schedules and exhibits thereof have been omitted pursuant to Item 601(b)(2) of Regulation S-K. A copy of any omitted schedule or exhibit will be furnished to the SEC upon request.

* Filed herewith.

** Furnished herewith

SIGNATURE

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

APOLLO MEDICAL HOLDINGS, INC.

Dated: November 14, 2018 By: /s/ Thomas Lam
Thomas Lam
Co-Chief Executive Officer
(Principal Executive Officer)

Dated: November 14, 2018 By: /s/ Warren Hosseinion
Warren Hosseinion
Co-Chief Executive Officer
(Principal Executive Officer)

Dated: November 14, 2018 By: /s/ Eric Chin
Eric Chin
Chief Financial Officer
(Principal Financial and Accounting Officer)