

Apollo Medical Holdings, Inc.
Form 10-Q/A
April 10, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q/A

Amendment No.1

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED April 30, 2011

OR

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

COMMISSION FILE NUMBER: **000-25809**

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

As of June 20, 2011 , there were 28,985,774 shares of the registrant's common stock, \$0.001 par value per share, issued and outstanding.

APOLLO MEDICAL HOLDINGS, INC.

FOR THE THREE MONTHS ENDED APRIL 30, 2011

EXPLANATORY NOTE

Apollo Medical Holdings, Inc. is filing this Amendment No. 1 (this "Amendment") to its Quarterly Report on Form 10-Q for the three months ended April 30, 2011 in response to comments received from the SEC.

This Amendment No. 1 speaks as of the filing date of the original Quarterly Report on Form 10-Q, except where otherwise expressly stated and except for the certifications, which speak as of their respective dates and the filing date of this Amendment No. 1. The information contained in this Amendment No. 1 has not been updated to reflect events occurring or trends arising after the original filing date of the original Quarterly Report on Form 10-Q.

In accordance with Rule 12b-15 under the Securities Exchange Act of 1934, this Amendment republishes the amended items in their entirety.

INDEX TO FORM 10-Q FILING

TABLE OF CONTENTS

	PAGE
PART I	
FINANCIAL INFORMATION	
Item 1. Condensed Consolidated Financial Statements – Unaudited	
Balance Sheet As of April 30, 2011 and January 31, 2011	3
Statements of Operations For the Three months ended April 30, 2011 and 2010	4
Statements of Cash Flows For the Three months ended April 30, 2011 and 2010	5
Notes to Financial Statements	6-13

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

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	14-16
Item 3. Quantitative and Qualitative Disclosures about Market Risk	16
Item 4. Control and Procedures.	16

PART II
OTHER INFORMATION

Item 1. Legal Proceedings	17
Item 1A Risk Factors	17
Item 2. Unregistered Sales of Equity Securities and the Use of Proceeds	17
Item 3. Defaults upon Senior Securities	17
Item 4. Submission of Matters to a Vote of Security Holders	17
Item 5. Other Information	17
Item 6. Exhibits	17-18

APOLLO MEDICAL HOLDINGS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

	April 30, 2011	January 31, 2011
CURRENT ASSETS		
Cash and cash equivalents	\$281,869	\$397,101
Accounts receivable, net	692,403	704,971
Receivable from officers	24,873	24,873
Due from affiliate	4,700	3,900
Prepaid expenses	17,227	29,138
Prepaid financing cost, current	37,500	37,500
Total current assets	1,058,572	1,197,483
Prepaid financing cost, long term	29,688	39,063
Property and equipment – net	18,300	21,593
Intangible assets	577,500	-
TOTAL ASSETS	\$1,684,060	\$1,258,139
LIABILITIES AND STOCKHOLDERS' DEFICIT:		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$99,562	\$92,745
Contingent consideration payable (see Note 18)	367,500	-
Total current liabilities	467,062	92,745
Convertible notes	1,248,789	1,248,588
Total liabilities	1,715,851	1,341,333
STOCKHOLDERS' DEFICIT:		
Preferred stock, par value \$0.001 ; 5,000,000 shares authorized; none issued	-	-
Common Stock, par value \$0.001; 100,000,000 shares authorized, 28,985,774 and 27,635,774 shares issued and outstanding as on April 30, 2011 and January 31, 2011, respectively	28,986	27,636
Additional paid-in-capital	1,337,401	1,058,418
Accumulated deficit	(1,626,293)	(1,397,363)
Total	(259,906)	(311,309)
Non-controlling interest	228,115	228,115
Total stockholders' deficit	(31,791)	(83,194)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$1,684,060	\$1,258,139

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

APOLLO MEDICAL HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	For the three month periods ended April 30,	
	2011	2010
REVENUES	\$ 1,039,693	\$ 802,885
COST OF SERVICES	947,489	674,686
GROSS REVENUE	92,204	128,199
OPERATING EXPENSES:		
General and administrative	276,355	85,192
Depreciation	3,293	3,006
Total operating expenses	279,648	88,198
PROFIT/(LOSS) FROM OPERATIONS	(187,444)	40,001
OTHER EXPENSES:		
Interest expense	(31,574)	(31,523)
Financing cost	(9,375)	(9,375)
Other expense	1,063	854
Total other expenses	(39,886)	(40,044)
LOSS BEFORE INCOME TAXES	(227,330)	(43)
Provision for income tax	1,600	800
NET LOSS	\$ (228,930)	\$ (843)
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING, BASIC AND DILUTED	28,648,134	27,229,655
*BASIC AND DILUTED NET LOSS PER SHARE	\$ (0.01)	\$ (0.00)

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

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

APOLLO MEDICAL HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(UNAUDITED)

	For three month periods ended April 30,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (228,930) \$ (843
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	3,293	3,006
Bad debt expense	-	(60,647
Issuance of shares for services	63,000	30,066
Non-cash stock option expense	7,333	-
Amortization of debt discount	201	202
Changes in assets and liabilities:		
Accounts receivable	12,568	(135,510
Prepaid financing cost	9,375	9,376
Prepaid expenses	11,911	7,344
Accounts payable and accrued liabilities	6,817	(8,824
Net cash used in operating activities	(114,432) (155,830
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property and equipment	-	(4,568
Due from related parties	(800) (800
Net cash used in investing	(800) (5,368
NET DECREASE IN CASH & CASH EQUIVALENTS	(115,232) (161,197
CASH & CASH EQUIVALENTS, BEGINNING BALANCE	397,101	665,737
CASH & CASH EQUIVALENTS, ENDING BALANCE	\$ 281,869	\$ 504,540
SUPPLEMENTARY DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid during the quarter	\$ 123	\$ 71
Taxes paid during the quarter	\$ 1,600	\$ 1,600
NONCASH FINANCING ACTIVITIES		
Common stock issue for acquisition of AHI (see Note 18)	\$ 210,000	\$ -
Contingent consideration payable (see Note 18)	\$ 367,500	\$ -

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 and Merger

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

On February 15, 2011, the Company completed a merger (“Merger”), whereby Aligned Healthcare Group, Inc. became a wholly-owned subsidiary of Apollo Medical Holdings, Inc. The Merger was effected pursuant to Stock Purchase Agreement, dated February 15, 2011, by and among Aligned Healthcare Group – California, Inc., Raouf Khalil, Jamie McReynolds, M.D. BJ Reese and BJ Reese & Associates, LLC, under which the Company acquired all of the issued and outstanding shares of capital stock (the “Acquisition”) of Aligned Healthcare, Inc., a California corporation (“AHI”), from AHI’s shareholders. AHI is engaged in the business of operating 24-hour physician call centers and provides specialized care management services (See Note 18).

2. Summary of Significant Accounting Policies

Accounting Principles

These statements reflect all adjustments, consisting of normal recurring adjustments, which, in management’s opinion, are necessary for fair presentation of the information contained herein. These financial statements should be read in conjunction with the Company’s financial statements and notes thereto included in the Company’s audited financial statements on Form 10-K for the fiscal year ended January 31, 2011 as filed with the Securities and Exchange Commission (“SEC”) on May 16, 2011.

Principles of Consolidation

Our consolidated financial statements include the accounts of our wholly-owned subsidiaries, and a professional medical corporation for which we have determined that we have a controlling financial interest through a long-term management agreement. Some states have laws that prohibit business entities from practicing medicine, employing physicians to practice medicine, exercising control over medical decisions by physicians (collectively known as the corporate practice of medicine), or engaging in certain arrangements with physicians, such as fee-splitting. In California, and in accordance with these laws, we operate by maintaining a long-term management contract with a professional medical corporation, which is owned and operated by physicians, and which employ or contract with additional physicians to provide hospitalist services. Under this management agreement, we have exclusive authority over all non-medical management and administrative services, including financial management, information systems, marketing, risk management and administrative support. The management agreement has an initial term of 20 years.

All intercompany balances and transactions are eliminated in consolidation.

Use of Estimates

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

Reclassification

Certain comparative amounts have been reclassified to conform to the three month periods ended April 30, 2011 and 2010.

Recently Issued Accounting Pronouncements

In December 2010, the Financial Accounting Standards Board issued Accounting Standards Update (“ASU”) No. 2010-29, *Business Combinations, Disclosure of Supplementary Pro Forma Information for Business Combinations* (“ASU 2010-29”), which provides clarification regarding pro forma revenue and earnings disclosure requirements for business combinations. The amendments in this ASU specify that if a public entity presents comparative financial statements, the entity should disclose only revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period. The amendments also expand the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendments are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Early adoption is permitted. The Company adopted ASU 2010-29 during the first interim reporting period of 2011 as it relates to pro-forma disclosure of the Company’s acquisitions. The adoption of ASU 2010-29 did not have a material impact on the Company’s consolidated financial statements.

ASU No. 2010-28, *Intangibles — Goodwill and Other, When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts* (“ASU 2010-28”) was issued in December 2010. The amendments in this ASU modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any events or circumstances that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. Early adoption is not permitted. The Company adopted ASU 2010-28 for the quarter ending March 31, 2011.

3. Uncertainty of ability to continue as a going concern

The Company's financial statements are prepared using the generally accepted accounting principles applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. As shown in the accompanying consolidated financial statements, the Company has an accumulated deficit of \$1,626,293 as of April 30, 2011. In addition, the Company has a total stockholders' deficit of \$31,791 and a negative net cash flow operating activities for the twelve months ended April 30, 2011 of \$114,432.

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

To date the Company has funded its operations from both internally generated cash flow and external sources, and the proceeds available from the private placement of convertible notes which have provided funds for near-term operations and growth. The Company will pursue additional external capitalization opportunities, as necessary, to fund its long-term goals and objectives. Management has taken action to strengthen the Company's working capital position and generate sufficient cash to meet its operating needs through January 31, 2012 and beyond. The Company also anticipates generating more revenue through new hospitalist, care management contracts and mergers and acquisitions.

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

4. Accounts Receivable

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

The Company maintains reserves for potential credit losses on accounts receivable. Management reviews the composition of accounts receivable and analyzes historical bad debts, customer concentrations, customer credit worthiness, current economic trends and changes in customer payment patterns to evaluate the adequacy of these reserves. Reserves are recorded primarily on a specific identification basis.

As of April 30, 2011, Accounts Receivable totals \$692,403, net of a provision for bad debt expense of \$34,746, and represents amounts invoiced by AMH. Accounts Receivable was \$704,971, net of the provision for bad debt expense of \$34,746, on January 31, 2011.

5. Other Receivables

Other receivables total \$24,872 and represent amounts due the Company from two officers. These balances are due on demand, non-interest bearing and are unsecured.

6. Due from affiliate

Due from Apollo Medical Associates (“AMA”) was \$4,700 and \$3,900 as of April 30, 2011 and January 31, 2011, respectively, and represents amounts due from AMA. These balances are due on demand, non-interest bearing and are unsecured. AMA is an unconsolidated affiliate of the Company and currently has no operations and is inactive. No management agreement currently exists between AMM and AMA.

7. Prepaid Expenses

Prepaid Expenses of \$17,228 and \$29,138 as of April 30, 2011 and January 31, 2011, respectively, are amounts prepaid for medical malpractice insurance and Director’s and Officer’s insurance.

8. Prepaid Financing Cost

Unamortized financing cost of \$67,188 on April 30, 2011 and \$76,563 as of January 31, 2011 represent the financing cost associated with 10% Senior Subordinated Callable Convertible Notes due January 31, 2013, \$125,000 paid by the Company on the closing of the placement on October 16, 2009 (see Note 11).

9. Property and Equipment

Property and Equipment consists of the following as of :

	April 30, 2011	January 31, 2011
Website	\$4,568	\$4,568
Computers	13,912	13,912
Software	155,039	155,039
Machinery and equipment	50,815	50,815
Gross Property and Equipment	224,334	224,334
Less accumulated depreciation	(206,034)	(202,741)
Net Property and Equipment	\$18,300	\$21,593

Depreciation expense was \$3,293 and \$3,006 for the three month periods ended April 30, 2011 and 2010, respectively.

10. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following as of:

	April 30, 2011	January 31, 2011
Accounts payable	\$49,507	\$ 35,815
D&O insurance payable	2,749	10,913

Accrued interest	31,250	-
Accrued professional fees	10,000	5,483
Accrued payroll and income taxes	6,056	40,534
Total	\$99,562	\$ 92,745

11. Long-term Debt

The Company's long-term debt consisted of the following:

	April 30, 2011	January 30, 2011
Subordinated Borrowings:		
10% Senior Subordinated Convertible Notes due January 31, 2013	\$ 1,248,789	\$ 1,248,588
Total long-term debt	\$ 1,248,789	\$ 1,248,588
Less: Current Portion		
Total	\$ 1,248,789	\$ 1,248,588

Subordinated Borrowings

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

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

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

In connection with the placement of the subordinated notes, the Company paid a commission of \$125,000 and \$25,000 of other direct expenses. The agent also received five-year warrants to purchase up to 250,000 shares of the Common Stock at an initial exercise price of \$0.25 per share adjustable pursuant to changes in public value of our shares and cash flow of the Company from July 31, 2011 until the note is paid in full. The agent also received 100,000 shares of restricted common stock for pre-transaction advisory services and due diligence. A commission of \$125,000 paid at closing, is accounted for as prepaid expense and will be amortized over a forty-month period through January 31, 2013, the maturity date of the notes. The \$25,000 of other direct expenses were paid at closing and reported as financing costs in the Operating Statement. In addition, financing costs included \$4,000 related to the value of the 100,000 shares granted to the placement agent. Interest expense of \$36,458 was recorded in the year ended January 31, 2010.

The 10% Notes are convertible any time prior to January 31, 2013. The initial conversion rate is 200,000 shares of the Company's common stock per \$25,000 principal amount of the 10% Notes adjustable pursuant to changes in public value of our shares and cash flow of the Company. This represents an initial conversion price of \$0.125 per share of the Company's common stock. The note is fixed from August 1, 2009 through July 31, 2011. After July 31, 2011, the conversion price will equal to the lesser of \$0.125 per share or the average of the monthly high stock price and low stock price as reported by Bloomberg multiplied by 110%. The minimum conversion price is the greater of \$0.05 per share or 8 times cash EPS.

On or after January 31, 2012, the Company may, at its option, upon 60 days notice to both the Note-holder's and the placement agent, redeem all or a portion of the notes at a redemption price in cash equal to 102% of the principal amount of the notes to be redeemed plus accrued and unpaid interest to, but excluding, the redemption date.

The Warrants attached to the Units are exercisable into shares of Common Stock at an initial exercise price of \$0.125. The Warrants have a five-year term and expire on October 31, 2014. The Company's calculations were made using the Black-Scholes option-pricing model with the following assumptions: expected life of 5 years; 48.0% stock price volatility; risk-free interest rate of 2.16% and no dividends during the expected term. These warrants were estimated to have a fair value of \$2,653 using the Black-Scholes pricing model which was recorded as unamortized warrant discount on the grant date and \$2,418 as of January 31, 2010.

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

8% Convertible Notes due December 25, 2009

On July 28, 2008, the Company issued \$70,000 in the form of a note payable to a relative of the CEO of the Company. The Note carried no interest rate and the Company agreed to pay a \$5,000 origination fee to be paid at the time of pay off. The maturity date on this Note was October 1, 2008. The note was extended by verbal agreement on its expiration date with no change in terms. On January 24, 2009, the Company formalized the note extension with the note holder. Under the terms of the new note, the \$5,000 origination fee was added to the note, the due date was extended to March 31, 2011, the interest rate was set at eight 8% and the note is initially convertible into 214,285 shares of common stock. The Company paid the note in full, with accumulated interest, on October 22, 2009. The Company recorded interest expense of \$4,323 and \$99 for the twelve months ended January 31, 2010 and January 31, 2009, respectively.

10% Convertible Notes due between October 7, 2009 and December 12, 2009

Between October 7, 2008 and December 12, 2008 the Company issued \$210,000 of its 10% Convertible Notes with attached Warrants. The notes bear interest at a rate of 10% annually, mature and become due twelve months from the date of issuance ranging from October 7, 2009 and December 12, 2009. The conversion rate is 1,333.333 shares of the Company's common stock per \$1,000 principal amount of the Notes. As of January 31, 2009, the Company received notices to convert \$200,000 of notes into shares of the Company's common stock. The remaining balance of \$10,000 was paid in full, with interest, on December 28, 2009.

Each Note Holder also received 666.67 Warrants per \$1,000 principal amount of the Notes purchased. These Warrants are exercisable into shares of Common Stock at an exercise price of \$1.50. The Warrants have a three-year term and expire on the third year anniversary of the respective notes. The Company recorded value of warrants using the Black Scholes pricing model using the following assumptions: Stock price \$0.27, Expected life of 3 years, Risk free bond rate of 1.05% to 2.00% and volatility of 44% to 61%. Based on the assumptions used the Company recorded the fair value of warrants amounting to \$379 which was fully amortized as interest expense during year ended January 31, 2009.

The Company recorded interest expense of \$ 31,250 and \$31,250 related to these notes for the three months ended April 30, 2011 and 2010.

12. Related Party Transactions

During the three months ended April 30, 2011 and 2010, the Company generated revenue of \$110,000 and \$105,000, respectively, by providing management services to ApolloMed Hospitalists (AMH), an affiliated company with common ownership interest. Commencing August 1, 2008, the management services fee income reported by AMM was eliminated in consolidation against similar costs recorded at AMH.

During the three months ended April 30, 2011, the Company issued 350,000 shares valued at \$63,000 to the chief financial officer for consulting service. (see Note 15)

13. Non-Controlling Interest

The Company recorded AMH ownership interest in the accompanying financial statements as Non-Controlling Interest of \$228,115 at April 30, 2011 and January 31, 2011.

14. Income Taxes

Our effective tax rates were approximately 1.0% and 1.86% for the three months ended April 30, 2011 and 2010, respectively. Our effective tax rate was lower than the U.S. federal statutory rate due to the fact that the Company records a full valuation allowance on deferred tax assets, which are primarily generated as a result of net operating losses incurred.

15. Stockholder's Equity

In the first quarter ended April 30, 2011, the Company issued 1,350,000 common shares, bringing the total outstanding shares to 28,985,774. A total of 350,000 shares were issued to Kanehoe Advisors and 1,000,000 shares were issued in connection with the acquisition of Aligned Healthcare Group, Inc. (see Note 18). The 1,350,000 shares were valued at \$273,000 based on the fair value of shares at issuance date.

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

The Company issued a total of 594,446 common shares in the twelve months ended January 31, 2011, including 383,333 shares in the first quarter ended April 30, 2010 and 211,113 shares issued in the second quarter ended July 31, 2010. Of the 594,446 shares issued, 244,446 were issued to officers and directors and 350,000 shares were issued to Kanehoe Advisors. The total shares of 594,446 were valued at \$47,378 based on the fair value of shares at issuance dates.

Warrants outstanding:

No warrants were issued by the Company in the quarter ended April 30, 2011.

	Aggregate intrinsic value	Number of warrants
Outstanding at January 31, 2011	\$ —	1,655,333
Granted	—	-
Exercised	—	—
Cancelled	—	—
Outstanding at April 30, 2011	\$ —	1,655,333

Exercise Price	Warrants outstanding	Weighted average remaining contractual life	Warrants exercisable	Weighted average exercise price
\$ 1.500	155,333	0.49	155,333	\$ 1.50
\$ 0.125	1,250,000	3.51	1,250,000	\$ 0.125
\$ 0.250	250,000	3.51	250,000	\$ 0.25

Options outstanding:

Stock option transactions under the Company's stock option plans for the three months ended April 30, 2011 are summarized below:

	Shares	Weighted Average Per Share Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Balance, January 31, 2011	1,150,000	\$ 0.15		-

Granted	-	-		
Exercised	-	-		
Expired	-	-		
Forfeited	-	-		
Balance, April 30, 2011	1,150,000	\$ 0.15	9.6 years	\$ 55,500
Exercisable, April 30, 2011	666,616	\$ 0.15	9.6 years	\$ 55,500

The Company did not issue any stock options during the three months ended April 30, 2011 and 2010, respectively.

16. Commitments and Contingency

On March 15, 2009, the Company entered into a Consulting Agreement with Kaneohe Advisors LLC (Kyle Francis) under which Mr. Francis became the Company's Executive Vice President, Business Development and Strategy. Under the terms of the Agreement, Mr. Francis is compensated at a rate of \$8,000 per month. In addition, Mr. Francis received 350,000 shares of restricted stock at the date of the Agreement and is entitled to 350,000 additional restricted shares on the first and second anniversaries of the Agreement, provided the Agreement is not terminated. The initial 350,000 shares, along with 50,000 shares granted to Mr. Francis in the year ended January 2009, were issued in the third quarter ended October 31, 2009. On March 15, 2011, the second anniversary of the Consulting Agreement, Mr. Francis was granted an additional 350,000 shares. Mr. Francis was named Chief Financial Officer on December 31, 2010. Mr. Francis shares was increased to \$11,000 per month.

On October 27, 2008, the Company entered into a Board of Director's Agreement with Suresh Nihalani. The Company will issue a stock award of 400,000 shares to Mr. Nihalani, under the terms of the Director's Agreement, which shares will be issued ratably over a thirty-six month period commencing December 2008. The shares will be released to Mr. Nihalani on a monthly basis during his tenure as a Director. The distribution of shares will continue as long as Mr. Nihalani serves on the Board, but will cease when Mr. Nihalani is no longer a Director. Mr. Nihalani was issued 11,111 shares under this agreement in the year ended January 31, 2009 and an additional 144,443 shares in the year ended January 31, 2010.

17. Concentration

The Company's case rate and capitation revenues, reported by Apollo's affiliate, AMH, are governed by contractual agreements with medical groups/IPA's and hospitals. As a result, receivables from this business are generally fully collected. The Company does face issues related to the timing of these collections, and the Company must assess the level of earned but uncollected revenue to which it is entitled at each period end. The Company does face collection

issues with regard to its fee-for-service revenues. One is the estimation of the amount to be received from each billing since the Company invoices on a Medicare schedule and each of many providers remits payment on a reduced schedule. The Company has to estimate the amount it will ultimately receive from each billing and properly record revenue. The Company's three largest contracts accounted for 41.8%, 23.2% and 9.9%, respectively in the three months ended April 30, 2011.

18. Acquisition

On February 15, 2011, Apollo Medical Holdings, Inc. (the “Company”) entered into a Stock Purchase Agreement (the “Purchase Agreement”) with Aligned Healthcare Group – California, Inc., Raouf Khalil, Jamie McReynolds, M.D. BJ Reese and BJ Reese & Associates, LLC, under which the Company acquired all of the issued and outstanding shares of capital stock and associated Intellectual property and related intangibles (the “Acquisition”) of Aligned Healthcare, Inc., a California corporation (“AHI”), from AHI’s shareholders. Upon the signing of the Purchase Agreement, 1,000,000 shares of the Company’s common stock became issuable (the “Initial Shares”) and are included in the number of shares outstanding. In addition, if the gross revenues of AHI and an affiliated entity (the “Aligned Division”) exceed \$1,000,000 on or before February 1, 2012, then the Company will be obligated to issue an additional 1,000,000 shares of common stock (the “Contingent Shares”). Moreover, the Company will be obligated to issue up to an additional 3,500,000 shares of common stock (the “Earn-Out Shares” and, collectively with the Initial Shares and the Contingent Shares, the “Shares”) over a three year period following closing based on the EBITDA generated by the Aligned Division during that time. Under the agreement, ApolloMed will issue twelve shares of its Common stock for each dollar of Actual EBITDA earned in the first 12-month period. In subsequent periods, ApolloMed will issue twelve shares of its common stock for each dollar of Actual EBITDA in excess of the maximum EBITDA earned in either the first 12-month period or first 12-month period and second 12 month period.

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

Based on our internal estimate of contingent shares to be issued as part of this agreement, we estimated that the total fair value of the common stock shares issued and contingently issuable for this transaction on the acquisition date was \$577,500.

The Company has recognized a liability based on the acquisition date fair value of the acquisition-related contingent consideration based on the probability of the achievement of the targets. Based on the Company’s estimation, an initial liability of \$367,500 (1,750,000 shares) was recorded. Changes in the fair value of the acquisition-related contingent consideration during the measurement period, including changes from events after the acquisition date, such as changes in the Company’s estimate of the revenue and net income expected to be achieved and changes in their stock price, are being recognized as an adjustment to the purchase price in the period in which the estimated fair value changes. The accompanying consolidated financial statements include the financial results of these companies from the date of acquisition.

The estimated fair values of net assets acquired and presented below are preliminary and are based on the information that was available as of the acquisition date and prior to the filing of this Quarterly Report on Form 10-Q. The

Company believes that the information provides a reasonable basis for estimating the fair values of assets acquired and liabilities assumed; however, the Company is awaiting the finalization of certain third-party valuations to finalize those fair values. Thus, the preliminary measurements of fair value set forth below are subject to change. The Company expects to finalize the valuation and complete the purchase price allocations as soon as practicable, but no later than one year from the respective acquisition date.

The following table summarizes the preliminary determination of the purchase price and fair value of AHI's assets acquired and liabilities assumed at the date of acquisition:

Purchase price calculation:

Common stock issued (1,000,000 shares)	\$210,000
Contingent consideration (1,750,000 shares of common stock)	367,500
Fair value of total consideration	577,500

Allocation of purchase price:

Intellectual property and technical know-how	\$577,500
--	-----------

AHI's operations commenced immediately prior to the Company's acquisition, as the result pro forma information is not presented. During the quarter ended April 30, 2011, AHI incurred a net loss of \$33,621, which is included in the consolidated net loss reported by the Company. Pro forma basic and earnings per share for the three months ended April 30, 2011 and 2010 are \$(0.01) and \$(0.00), respectively.

19. Subsequent Events

On July 8, 2011, the Company entered into a First Amendment to Stock Purchase Agreement (the "AHI Amendment") with Aligned Healthcare Group, LLC ("Aligned LLC"), Aligned Healthcare Group – California, Inc. ("Aligned Corp."), Raouf Khalil, Jamie McReynolds, M.D. BJ Reese and BJ Reese & Associates, LLC, which amends in certain respects the AHI Purchase Agreement. The AHI Amendment provides, among other things, that Aligned LLC and Aligned Corp. may enter into contracts with a specified health insurance provider for the provision of services related to patient care management or the management, administration and operation of 24-hour physician and nursing call centers and post-discharge management (the "Call Center Business") solely within the State of California, and that the Company and its subsidiaries have the exclusive right, as between the Company and Aligned LLC and Aligned Corp., to enter into other contracts for the provision of services related to the Call Center Business.

In connection with the AHI Amendment, the Company's wholly owned subsidiary, AHI, entered into a Services Agreement, dated as of July 8, 2011 (the "AHI Services Agreement"), with Aligned LLC and Aligned Corp., under which Aligned LLC and Aligned Corp. have agreed that if either entity enters into one or more contracts with a specified health insurance provider relating to the provision of services for the Call Center Business solely within the State of California, then Aligned LLC and Aligned Corp. would remit all revenues, less allowable costs incurred in connection with the provision of such services, to AHI.

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

The following management's discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements and the notes thereto included in this Quarterly Report. In addition, reference is made to our audited consolidated financial statements and notes thereto and related Management's Discussion and Analysis of Financial Condition and Results of Operations included in our most recent Annual Report on Form 10-K for the year ended January 31, 2011, filed with the Securities and Exchange Commission (SEC) on May 16, 2011.

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

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

Overview

We are a leading provider of hospitalist services in the Greater Los Angeles, California area. Hospitalist medicine is organized around the admission and care of patients in an inpatient facility such as a hospital or skilled nursing facility and is focused on providing, managing and coordinating the care of hospitalized patients.

Acquisitions

During the three months ended April 30, 2011, we entered into a stock purchase agreement with Aligned Healthcare Group. Upon the signing of the Purchase Agreement, 1,000,000 shares of the Company's common stock became issuable (the "Initial Shares") and are included in the number of shares outstanding. In addition, if the gross revenues of AHI and an affiliated entity (the "Aligned Division") exceed \$1,000,000 on or before February 1, 2012, then the Company will be obligated to issue an additional 1,000,000 shares of common stock (the "Contingent Shares"). Moreover, the Company will be obligated to issue up to an additional 3,500,000 shares of common stock (the "Earn-Out Shares" and, collectively with the Initial Shares and the Contingent Shares, the "Shares") over a three year period following closing based on the EBITDA generated by the Aligned Division during that time.

In connection with this acquisition, the Company recorded intellectual property and technical know-how of \$577,500. Total transaction costs of \$37,901 were expensed as incurred during the three months ended April 30, 2011.

Results of Operations and Operating Data

Three Months Ended April 30, 2011 vs. Three Months Ended April 30, 2010

Net revenues for the three months ended April 30, 2011 of \$1,039,693 increased \$236,808, or 29 percent, over net revenues of \$802,885 reported for the three months ended April 30, 2010. Net revenues are comprised of net billings by AMH under the various fee structures from health plans, medical groups/IPA's and hospitals, and income from service fee agreements. Increase was attributable to new hospital contracts, increased same-market area growth and expansion of services with existing medical group clients at new hospitals.

Physician practice salaries, benefits and other expenses for the three months ended April 30, 2011 were \$947,489, at 91% of net revenues compared to \$674,686 for the three months ended April 30, 2010, at 84% of net revenues. Cost of Services includes the payroll and consulting costs of the physicians, all payroll related costs, costs for all medical malpractice insurance and physician privileges. Increases in physician costs were attributable to start-up losses at new hospital contracts and expansions of services at existing hospitals in the quarter and the hiring of new physicians to support new contracts.

General and administrative expenses include all salaries, benefits, supplies and operating expenses, not specifically related to the day-to-day operations of our physician group practices, including billing and collections functions, and our corporate management and overhead. General and administrative expenses were \$276,355, at 27% of net revenues, for the three months ended April 30, 2011. General and Administrative expenses were \$85,192 for the three months ended April 30, 2010, at 11% of net revenues. The increase in expense is primarily the result of increased costs to support the continuing growth of our operations, new office equipment, and severance pay for one employee in the quarter. In addition, the Company experienced start-up losses of \$33,621 at AHI during the three months ended April 30, 2011. The Company incurred non-cash compensation expenses of \$63,000, related to the issuance of shares for service during the three months ended April 30, 2011, compared to \$30,066 of such non-cash costs during the three months ended April 30, 2010. In addition, the Company had no change in its bad debt reserve calculation for the three months ended April 30, 2011 compared to favorable write-down of its bad debt reserve of \$60,647 in the first quarter of 2010.

Depreciation and amortization expense was \$3,293 for the three months ended April 30, 2011, and \$3,006 for the comparable three-month period in 2010.

The Company reported a loss from operations of \$187,444 for the three months ended April 30, 2011, compared to a profit from operations of \$40,001 recorded in the same period of 2010. Net revenues in 2011 continued to benefit from the addition of contracts with hospitals, IPAs and Health plans and the hiring of several additional

physicians. The decrease in operating profits for the three months ended April 30, 2011 is primarily related to increased physician costs to support new contracts and transaction and start-up costs related to the acquisition of AHI.

Interest expense and amortization of financing costs totaled \$40,949 for the three months ended April 30, 2011, compared to interest and financing costs of \$40,898 for the three months ended April 30, 2010. Interest expense and financing costs in 2011 included interest on the subordinated borrowings of \$31,574, and the amortization of financing costs of \$9,375, related to these notes. Interest expense for the three months ended April 30, 2010 of \$40,898 represents interest expense paid on the subordinated borrowings of \$31,523, and the amortization of financing costs of \$9,375, related to subordinated notes. Net Loss was \$228,930 for the three months ended April 30, 2011, compared to a net loss of \$843 for the three months ended April 30, 2010. The increase in the net loss for the three months ended April 30, 2011 is primarily related to increased physician costs to support new contracts and transaction and start-up costs related to the acquisition of AHI.

Liquidity and Capital Resources

At April 30, 2011, the Company had cash and cash equivalents of \$281,869, compared to cash and cash equivalents of \$397,101 at January 31, 2011. The cash balance at April 30, 2011 included \$264,868 in a money market brokerage account. There were no short-term borrowings at April 30, 2011 or January 31, 2011. Long-term borrowings totaled \$1,248,789 as of April 30, 2011 and \$1,248,588 on January 31, 2011.

Net cash used in operating activities totaled \$114,432 in the three months ended April 30, 2011, compared to net cash used in operations of \$155,830 for the comparable three months ended April 30, 2010. The decrease in accounts receivable and increase in and increase in accounts payable, is the primary cause for the decrease in cash used for operating activities and transaction and start-up losses related with acquisition of AHI for the three months ended April 30, 2010.

Net cash used in operating activities for the three months ended April 30, 2010 of \$114,432 was comprised of a net loss of \$228,930 for the three month period. Adjustments for non-cash charges which include depreciation, bad debt expense, shares issued for service and amortization of commission cost and debt discount, used \$73,827. In addition, net changes in operating assets and liabilities provided cash of \$40,671.

During the three months ended April 30, 2011, the Company advanced \$800 to an affiliated Company. The Company invested \$4,568 to develop a web site and an \$800 advance to an affiliated Company in the first quarter of 2010.

Liquidity

We continue to search for investment opportunities and anticipate that funds generated from operations, together with our current cash on hand and funds available under our revolving credit agreement will be sufficient to finance our working capital requirements and fund anticipated acquisitions, contingent acquisition consideration and capital expenditures.

Off Balance Sheet Arrangements

As of April 30, 2011, we had no off-balance sheet arrangements.

Recently Adopted and New Accounting Pronouncements

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures.

In connection with the preparation of this Quarterly Report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Principal Financial and Accounting Officer, of the effectiveness of our disclosure controls and procedures, as of April 30, 2011, in accordance with Rules 13a-15(b) and 15d-15(b) of the Exchange Act.

Based on that evaluation, our Chief Executive Officer and Principal Financial and Accounting Officer have concluded that our disclosure controls and procedures were not effective as of April 30, 2011.

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

1. We do not have written documentation of our internal control policies and procedures. Written documentation of key internal controls over financial reporting is a requirement of Section 404 of the Sarbanes-Oxley Act. Management evaluated the impact of our failure to have written documentation of our internal controls and procedures on our assessment of our disclosure controls and procedures, and concluded that the control deficiency that resulted represented a material weakness.
2. We do not have sufficient segregation of duties within accounting functions, which is a basic internal control. Due to our size and nature, segregation of all conflicting duties may not always be possible and may not be economically feasible. However, to the extent possible, the initiation of transactions, the custody of assets and the recording of transactions should be performed by separate individuals. Management evaluated the impact of our failure to have segregation of duties on our assessment of our disclosure controls and procedures, and concluded that the control deficiency that resulted represented a material weakness.
3. We do not have review and supervision procedures for financial reporting functions. The review and supervision function of internal control relates to the accuracy of financial information reported. The failure to review and supervise could allow the reporting of inaccurate or incomplete financial information. Due to our size and nature, review and supervision may not always be possible or economically feasible.

Based on the foregoing material weaknesses, we have determined that, as of April 30, 2011, our internal controls over our financial reporting are not effective. The Company is taking remediating steps to address each material weakness. We continue to add employees and consultants to address these issues and we will continue to broaden the scope of our accounting and billing capabilities and realigning responsibilities in our financial and accounting review functions.

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

Changes in Internal Controls over Financial Reporting

There has been no change in our internal control over financial reporting during our most recently completed fiscal quarter (i.e., the three-month period ended April 30, 2011) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is not a party to any litigation and, to its knowledge, no action, suit or proceeding has been threatened against the company.

ITEM 1A. RISK FACTORS

Not Applicable

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

On February 15, 2011, Apollo Medical Holdings, Inc. (the “Company”) entered into a Stock Purchase Agreement (the “Purchase Agreement”) with Aligned Healthcare Group – California, Inc., Raouf Khalil, Jamie McReynolds, M.D. BJ Reese and BJ Reese & Associates, LLC, under which the Company acquired all of the issued and outstanding shares of capital stock (the “Acquisition”) of Aligned Healthcare, Inc., a California corporation (“AHI”), from AHI’s shareholders. Upon the signing of the Purchase Agreement, 1,000,000 shares of the Company’s common stock was issued as a private placement pursuant to Section 4(2). Stock Purchase Agreement was filed as an exhibit to Current Form 8-K filed on February 22, 2011 and incorporated herein by reference.

On March 15, 2011, the Company issued 350,000 shares to Kaneohe Advisors LLC (Kyle Francis). The shares were issued as a private placement pursuant to Section 4(2). See Note 15

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

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

17

- 31.1 Certification by Chief Executive Officer, required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act.
- 31.2 Certification by Chief Financial Officer, required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act.
- 32.1 Certification by Chief Executive Officer, required by Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code.
- 32.2 Certification by Chief Financial Officer, required by Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

APOLLO MEDICAL HOLDINGS, INC.

Dated: April 9, 2012 By: /s/ Warren Hosseinion
Warren Hosseinion
Chief Executive Officer and Director

Dated: April 9, 2012 By: /s/ Kyle Francis
Kyle Francis
Chief Financial Officer
(Principal Financial and Accounting Officer)