

SECURITIES & EXCHANGE COMMISSION EDGAR FILING

Apollo Medical Holdings, Inc.

Form: 10-Q

Date Filed: 2019-08-09

Corporate Issuer CIK: 1083446

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 ACT OF 1934

For the quarterly period ended **June 30, 2019**

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

(State or other jurisdiction
of incorporation or organization)

95-4472349

(IRS Employer Identification No.)

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). 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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol	Name of Each Exchange on Which Registered
Common Shares, par value \$0.001 per share	AMEH	Nasdaq Capital Market

As of August 5, 2019, there were 35,899,684 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 June 30, 2019 and December 31, 2018</u>	<u>5</u>
<u>Statements of Income for the Three and Six Months Ended June 30, 2019 and 2018</u>	<u>7</u>
<u>Statements of Mezzanine and Shareholders' Equity for the Three and Six Months Ended June 30, 2019 and 2018</u>	<u>9</u>
<u>Statements of Cash Flows for the Six Months Ended June 30, 2019 and 2018</u>	<u>10</u>
<u>Notes to Condensed Consolidated Financial Statements - Unaudited</u>	<u>13</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>50</u>
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>58</u>
<u>Item 4. Controls and Procedures</u>	<u>58</u>
<u>PART II</u>	
<u>OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	<u>60</u>
<u>Item 1A. Risk Factors</u>	<u>60</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>60</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>61</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>61</u>
<u>Item 5. Other Information</u>	<u>61</u>
<u>Item 6. Exhibits</u>	<u>62</u>

INTRODUCTORY NOTE

Unless the context dictates otherwise, references in this Quarterly Report on Form 10-Q to the “Company,” “we,” “us,” “our,” and similar words are references 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, 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,” “continue,” “target,” “seek,” “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 consolidated subsidiaries and consolidated 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 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;
- 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, 2018 as filed with the U.S. Securities and Exchange Commission (“SEC”) on March 18, 2019. 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)

	June 30, 2019	December 31, 2018
Assets		
Current assets		
Cash and cash equivalents	\$ 52,726,305	\$ 106,891,503
Restricted cash	3,537,470	—
Investment in marketable securities	1,149,828	1,127,102
Receivables, net	16,707,314	7,127,217
Receivables, net – related parties	64,057,647	49,328,739
Other receivables	12,900,211	1,003,133
Prepaid expenses and other current assets	10,121,935	7,385,098
Loan receivable – related parties	6,425,000	—
Total current assets	167,625,710	172,862,792
Noncurrent assets		
Land, property and equipment, net	12,101,373	12,721,082
Intangible assets, net	109,069,858	86,875,883
Goodwill	209,313,824	185,805,880
Loans receivable – related parties	17,500,000	17,500,000
Investment in other entities – equity method	35,903,041	34,876,980
Investment in a privately held entity that does not report net asset value per share	405,000	405,000
Restricted cash	740,212	745,470
Right-of-use assets	14,319,371	—
Other assets	1,351,576	1,205,962
Total noncurrent assets	400,704,255	340,136,257
Total assets	\$ 568,329,965	\$ 512,999,049
Liabilities, Mezzanine Equity and Stockholders' Equity		
Current liabilities		
Accounts payable and accrued expenses	\$ 30,658,273	\$ 25,075,489
Fiduciary accounts payable	1,798,807	1,538,598
Medical liabilities	42,942,898	33,641,701
Income taxes payable	—	11,621,861
Bank loan	—	40,257
Finance lease obligation	101,741	101,741
Lease liabilities	2,836,010	—

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

	June 30, 2019	December 31, 2018
Total current liabilities	78,337,729	72,019,647
Noncurrent liabilities		
Lines of credit – related party	44,600,000	13,000,000
Deferred tax liability	26,651,678	19,615,935
Liability for unissued equity shares	1,185,025	1,185,025
Finance lease obligation	466,771	517,261
Lease liabilities	11,416,750	—
Total noncurrent liabilities	84,320,224	34,318,221
Total liabilities	162,657,953	106,337,868
Commitments and Contingencies (Note 10)		
Mezzanine equity		
Noncontrolling interest in Allied Physicians of California, a Professional Medical Corporation (“APC”)	219,582,512	225,117,029
Stockholders’ equity		
Series A Preferred stock, par value \$0.001; 5,000,000 shares authorized (inclusive of all preferred stock, including Series B Preferred stock); 1,111,111 issued and zero outstanding at June 30, 2019 and December 31, 2018, respectively	—	—
Series B Preferred stock, par value \$0.001; 5,000,000 shares authorized (inclusive of all preferred stock, including Series A Preferred stock); 555,555 issued and zero outstanding at June 30, 2019 and December 31, 2018, respectively	—	—
Common stock, par value \$0.001; 100,000,000 shares authorized, 34,638,812 and 34,578,040 shares outstanding, excluding 1,944,054 and 1,850,603 treasury shares, at June 30, 2019 and December 31, 2018, respectively	34,639	34,578
Additional paid-in capital	163,891,843	162,723,051
Retained earnings	21,473,083	17,788,203
	185,399,565	180,545,832
Noncontrolling interest	689,935	998,320
Total stockholders’ equity	186,089,500	181,544,152
Total liabilities, mezzanine equity and stockholders’ equity	\$ 568,329,965	\$ 512,999,049

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 June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Revenue				
Capitation, net	103,223,692	90,316,182	174,740,470	176,221,466
Risk pool settlements and incentives	11,191,050	13,866,217	21,284,891	31,852,953
Management fee income	10,352,619	12,371,608	19,349,219	24,446,180
Fee-for-service, net	3,878,428	4,563,712	7,959,102	10,800,340
Other income	1,403,777	1,548,812	2,473,055	3,268,838
Total revenue	130,049,566	122,666,531	225,806,737	246,589,777
Operating expenses				
Cost of services	101,363,101	99,705,571	184,795,575	184,320,257
General and administrative expenses	11,817,555	10,893,135	22,081,515	22,441,474
Depreciation and amortization	4,454,571	4,918,078	8,872,152	9,976,590
Provision for doubtful accounts	(2,314,429)	—	(1,363,415)	—
Total expenses	115,320,798	115,516,784	214,385,827	216,738,321
Income from operations	14,728,768	7,149,747	11,420,910	29,851,456
Other income (expense)				
Income from equity method investments	(42,282)	1,669,861	(891,939)	1,641,837
Interest expense	(311,049)	(110,683)	(522,028)	(195,684)
Interest income	473,664	492,723	796,672	762,541
Other income	24,229	187,752	211,345	275,745
Total other (expense) income, net	144,562	2,239,653	(405,950)	2,484,439
Income before provision for income taxes	14,873,330	9,389,400	11,014,960	32,335,895
Provision for income taxes	4,209,399	1,523,807	2,801,158	8,752,647
Net income	10,663,931	7,865,593	8,213,802	23,583,248
Net income attributable to noncontrolling interests	7,118,715	5,201,491	4,528,922	18,758,691
Net income attributable to Apollo Medical Holdings, Inc.	\$ 3,545,216	\$ 2,664,102	\$ 3,684,880	\$ 4,824,557
Earnings per share – basic	\$ 0.10	\$ 0.08	\$ 0.11	\$ 0.15
Earnings per share – diluted	\$ 0.09	\$ 0.07	\$ 0.10	\$ 0.13
Weighted average shares of common stock outstanding – basic	34,540,059	32,674,459	34,518,461	32,548,662
Weighted average shares of common stock outstanding – diluted	37,962,555	37,850,679	37,896,837	37,935,773

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

APOLLO MEDICAL HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF MEZZANINE AND SHAREHOLDERS' EQUITY
(UNAUDITED)

	Mezzanine Equity – Noncontrolling Interest in APC						
	Noncontrolling Interest	Common Stock Outstanding		Additional Paid-in Capital	Retained Earnings	Noncontrolling Interest	Shareholders' Equity
		Shares	Amount				
Balance January 1, 2019	\$ 225,117,029	34,578,040	\$ 34,578	\$ 162,723,051	\$ 17,788,203	\$ 998,320	\$ 181,544,152
Net income	(3,000,021)	—	—	—	139,664	410,228	549,892
Purchase of treasury shares	(40,000)	(93,451)	(93)	93	—	—	—
Shares issued for exercise of options and warrants	155,000	17,516	17	139,957	—	—	139,974
Share-based compensation	202,382	1,599	2	142,750	—	—	142,752
Dividends	(10,000,000)	—	—	—	—	—	—
Balance at March 31, 2019	212,434,390	34,503,704	34,504	163,005,851	17,927,867	1,408,548	182,376,770
Net income	6,895,740	—	—	—	3,545,216	222,975	3,768,191
Purchase of treasury shares	—	—	—	—	—	—	—
Shares issued for exercise of options and warrants	50,000	135,108	135	757,993	—	—	758,128
Share-based compensation	202,382	—	—	127,999	—	—	127,999
Dividends	—	—	—	—	—	(941,588)	(941,588)
Balance at June 30, 2019	\$ 219,582,512	34,638,812	\$ 34,639	\$ 163,891,843	\$ 21,473,083	\$ 689,935	\$ 186,089,500

	Mezzanine Equity – Noncontrolling Interest in APC						
	Noncontrolling Interest	Common Stock Outstanding		Additional Paid-in Capital	Retained Earnings	Noncontrolling Interest	Shareholders' Equity
		Shares	Amount				
Balance January 1, 2018	\$ 172,129,744	32,304,876	\$ 32,305	\$ 158,181,192	\$ 1,734,531	\$ 4,235,398	\$ 164,183,426
ASC 606 Adoption	7,351,434	—	—	—	1,002,468	—	1,002,468
Net income	12,970,752	—	\$ —	\$ —	2,160,455	586,448	2,746,903
Purchase price adjustment from merger	—	—	—	—	—	—	—
Shares issued for exercise of options and warrants	—	309,826	310	1,923,474	—	—	1,923,784
Share-based compensation	202,382	37,593	38	631,524	—	—	631,562
Noncontrolling interest capital charge	—	—	—	—	—	—	—
Dividends	(2,000,000)	—	—	—	—	—	—
Balance at March 31, 2018	190,654,312	32,652,295	32,653	160,736,190	4,897,454	4,821,846	170,488,143
ASC 606 Adoption	—	—	—	—	—	—	—
Net income	4,857,625	—	—	—	2,664,102	343,866	3,007,968
Purchase price adjustment from merger	—	—	—	868,000	—	—	868,000
Shares issued for exercise of options and warrants	200,000	188,875	188	423,357	—	—	423,545
Share-based compensation	202,382	—	—	—	—	—	—
Noncontrolling interest capital charge	—	—	—	—	—	27,500	27,500
Balance at June 30, 2018	\$ 195,914,319	32,841,170	\$ 32,841	\$ 162,027,547	\$ 7,561,556	\$ 5,193,212	\$ 174,815,156

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)

	Six Months Ended June 30,	
	2019	2018
Cash flows from operating activities		
Net income	\$ 8,213,802	\$ 23,583,248
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	8,872,152	9,976,590
Loss on disposal of property and equipment	—	41,782
Provision for doubtful accounts	(1,363,415)	—
Share-based compensation	675,515	1,036,326
Unrealized (gain) loss from investment in equity securities	(14,549)	16,060
Income from equity method investments	891,939	(1,641,837)
Deferred tax	(549,198)	706,813
Changes in operating assets and liabilities, net of business combinations:		
Receivable, net	587,637	4,410,363
Receivable, net – related parties	(12,665,493)	(7,234,874)
Other receivables	(11,897,078)	—
Prepaid expenses and other current assets	(2,740,403)	(2,772,749)
Right-of-use assets	1,098,111	—
Other assets	(243,112)	(95,258)
Accounts payable and accrued expenses	3,340,115	(692,000)
Dividends payable	—	617,210
Incentives payable	—	(16,395,926)
Fiduciary accounts payable	260,209	(722,934)
Medical liabilities	(3,818,517)	2,881,017
Income taxes payable	(11,621,861)	(298,439)
Lease liabilities	(1,043,927)	—
Net cash (used in) provided by operating activities	<u>(22,018,073)</u>	<u>13,415,392</u>
Cash flows from investing activities		
Payments for business acquisition, net of cash acquired	(41,518,084)	—
Advances on loans receivable	(6,425,000)	(2,500,000)
Purchases of marketable securities	(8,177)	(3,932)
Purchases of investment - equity method	(2,158,000)	(16,673,840)
Purchases of a privately held entity that does not report net asset value per share	—	(405,000)
Purchases of property and equipment	(376,419)	(682,712)
Dividend received	240,000	—
Net cash used in investing activities	<u>(50,245,680)</u>	<u>(20,265,484)</u>
Cash flows from financing activities		
Repayment of bank loan	(8,040,257)	(257,374)
Dividends paid	(10,941,588)	(12,000,000)
Change in noncontrolling interest capital	—	27,500

Payment of capital lease obligations	(50,490)	(48,999)
Proceeds from the exercise of stock options and warrants	898,102	2,347,329
Repurchase of shares	(40,000)	—
Borrowings on line of credit	39,600,000	8,000,000
Proceeds from common stock offering	205,000	200,000
Net cash provided by (used in) financing activities	<u>21,630,767</u>	<u>(1,731,544)</u>
Net decrease in cash, cash equivalents and restricted cash	(50,632,986)	(8,581,636)
Cash, cash equivalents and restricted cash, beginning of period	<u>107,636,973</u>	<u>118,500,095</u>
Cash, cash equivalents and restricted cash, end of period	<u>\$ 57,003,987</u>	<u>\$ 109,918,459</u>
Supplementary disclosures of cash flow information:		
Cash paid for income taxes	\$ 16,700,000	\$ 11,612,590
Cash paid for interest	<u>438,976</u>	<u>144,544</u>
Supplemental disclosures of non-cash investing and financing activities		
Cashless exercise of stock options	\$ —	\$ 47
Deferred tax liability adjustment to goodwill	8,355,343	1,110,456

Refer to Note 16 for supplemental cash flow information related to the adoption of ASC 842.

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

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.

	Six Months Ended	
	June 30,	
	2019	2018
Cash and cash equivalents	\$ 52,726,305	\$ 101,132,237
Restricted cash – short-term - distributions to former NMM shareholders	—	8,040,870
Restricted cash – letters of credit	4,277,682	745,352
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	<u>\$ 57,003,987</u>	<u>\$ 109,918,459</u>

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. 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"). 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 condensed consolidated financial statements for all periods following 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"), APA ACO, Inc. ("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 and other 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 (the initial management services agreement was entered into in 1997) 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 June 30, 2019 and December 31, 2018, APC had an ownership interest of 4.88% and 4.82% 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 \$0.6 million 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-LSMA Designated Shareholder Medical Corporation ("APC-LSMA") was formed on October 15, 2012 as a designated shareholder professional corporation. Dr. Thomas Lam, a shareholder and the Chief Executive Officer and Chief Financial Officer of APC and Chief Executive Officer of ApolloMed, is a nominee shareholder of APC. APC makes all investment decisions on

behalf of APC-LSMA, funds all investments and receives all distributions from the investments. APC has the obligation to absorb losses and right to receive benefits from all 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 as the primary beneficiary of this VIE. The only activity of APC-LSMA is to hold the investments in medical corporations, including the IPA lines of business of LaSalle Medical Associates ("LMA"), Pacific Medical Imaging and Oncology Center, Inc. ("PMIOC"), Diagnostic Medical Group ("DMG") and AHMC International Cancer Center, a Medical Corporation ("ICC"). APC-LSMA also holds a 100% ownership interest in Maverick Medical Group, Inc. ("MMG") and Alpha Care Medical Group, Inc. ("Alpha Care").

Alpha Care, an IPA which has been operating in California since 1993 is a risk bearing organization engaged in providing professional services under capitation arrangements with its contracted health plans through a provider network consisting of primary care and specialty care physicians. Alpha Care specializes in delivering high-quality healthcare to over 180,000 enrollees and focuses on Medi-Cal/Medicaid, Commercial, and Medicare and Dual Eligible members in the Riverside and San Bernardino counties of Southern California.

ICC was formed on September 2, 2010 in the state of California. ICC is a professional medical corporation that 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 \$0.4 million in cash. Certain requirements to complete the investment transaction were completed in August 2017 and effective on October 31, 2017, ICC was consolidated by APC as a VIE 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 Centers for Medicare & Medicaid Services ("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.

AMM, a wholly-owned subsidiary of ApolloMed, manages affiliated medical groups, which consist of ApolloMed Hospitalists, a Medical Corporation ("AMH"), a hospitalist company, Southern California Heart Centers, a Medical Corporation ("SCHC"), Bay Area Hospitalist Associates, Inc. ("BAHA"), a Medical Corporation, ApolloMed Care Clinic, a Professional Corporation ("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.

AP-AMH Medical Corporation ("AP-AMH") was formed on May 7, 2019 as a designated shareholder professional corporation. Dr. Thomas Lam, a shareholder, and the Chief Executive Officer and Chief Financial Officer of APC and Chief Executive Officer of ApolloMed, is the sole shareholder of AP-AMH. ApolloMed makes all the decisions on behalf of AP-AMH and funds and receives all the distributions from its operations. ApolloMed has the obligation to absorb losses or rights to receive benefits from the operations of AP-AMH. Therefore, AP-AMH is controlled and consolidated by ApolloMed as the primary beneficiary of this VIE.

On May 10, 2019, ApolloMed entered into a series of agreements with two of its affiliates, AP-AMH and APC as follows:

1. The Company agreed to lend AP-AMH \$545.0 million pursuant to a ten-year secured loan agreement. The loan will bear interest at a rate of 10% per annum simple interest, will not be prepayable (except in certain limited circumstances), will require quarterly payments of interest only, and will be secured by a first priority security interest in all of AP-AMH's assets, including the shares of APC Series A Preferred Stock to be purchased by AP-AMH, to the extent that AP-AMH

is unable to make any interest payment when due because it has received dividends on the APC Series A Preferred Stock purchased with respect to such payment date in an amount insufficient to pay in full such interest payment, then the outstanding principal amount of the loan will be increased by the amount of any such accrued but unpaid interest, and any such increased principal amounts will bear interest at the rate of 10.75% per annum simple interest.

2. AP-AMH has agreed to purchase \$545.0 million of Series A Preferred Stock to be issued by APC to AP-AMH. Under the terms of the Series A Preferred Stock, AP-AMH is entitled to receive preferential, cumulative dividends that accrue on a daily basis and that are equal to the sum of (A) APC's net income from healthcare services, plus (B) any dividends received by APC from certain of APC's affiliated entities, less (C) any retained amounts.
3. APC has agreed to purchase \$300.0 million of the Company's common stock. The Company has agreed to grant APC certain registration rights with respect to the Company's common stock that APC purchases, and APC agreed to restrict its voting powers with respect to its shares.
4. The Company agreed to license certain of its trademarks to AP-AMH for a fee equal to a percentage of the aggregate gross revenues of AP-AMH. The license fee is payable out of any Series A Preferred Stock dividends received by AP-AMH from APC.
5. Through its subsidiary, the Company has agreed to provide certain administrative services to AP-AMH for a fee equal to a percentage of the aggregate gross revenues of AP-AMH. The administrative fee also is payable out of any APC Series A Preferred Stock dividends received by AP-AMH from APC.

The closing of foregoing transactions is contingent upon receiving the approval of the Company's stockholders. ApolloMed is holding a special meeting of its stockholders on August 27, 2019 in order to obtain the stockholder approvals necessary to complete the foregoing transactions. If consummated, these transactions will result in a fundamental change in the character of APC's healthcare services net income and how it is ultimately reflected on ApolloMed's consolidated statements of income. If consummated, the foregoing transactions will substantially affect the Company's future results of operations and its liquidity and capital resources.

2. Basis of Presentation

Basis of Presentation

The accompanying condensed consolidated balance sheet at December 31, 2018, 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 June 30, 2019 and for the three and six months ended June 30, 2019 and 2018, 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, 2018 as filed with the U.S. Securities and Exchange Commission ("SEC") on March 18, 2019. 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 six months ended June 30, 2019 are not necessarily indicative of the results that may be expected for the year ending December 31, 2019 or any future periods.

Principles of Consolidation

The condensed consolidated balance sheets as of June 30, 2019 and December 31, 2018, and the condensed consolidated statements of income for the three and six months ended June 30, 2019 and 2018, include the accounts of ApolloMed, its consolidated subsidiaries NMM, AMM, APAACO, Apollo Care Connect; ApolloMed's consolidated VIE, AP-AMH; NMM's subsidiaries, APCN-ACO, Inc. and Allied Physicians ACO, LLC; NMM's consolidated VIE, APC; APC's subsidiary, UCAP; and APC's consolidated VIEs, CDSC, APC-LSMA and ICC. Effective on June 1, 2019 the condensed consolidated balance sheet as of June 30, 2019 and condensed consolidated statements of income for the three and six months ended June 30, 2019, also include the accounts of Alpha Care.

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

Use of Estimates

The preparation of the 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 (incurred, but not reported ("IBNR") claims), determination of full-risk and shared-risk revenue and receivables (including constraints and completion factors including historical medical loss ratios ("MLR")), income taxes, valuation of share-based compensation and right of use assets and lease liabilities. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, and makes adjustments 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.

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.

Reclassifications

Certain amounts disclosed in prior period financial statements have been reclassified to conform to the current period presentation. These reclassifications had no material 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 June 30, 2019, the Company's deposit accounts with banks exceeded the FDIC's insured limit by approximately \$80.7 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.

Investments in Marketable Securities

The appropriate classification of investments is determined at the time of purchase and such designation is reevaluated at each balance sheet date. Investments in marketable debt securities have been classified and accounted for as held-to-maturity based on management's investment intentions relating to these securities. Held-to-maturity marketable securities are stated at amortized cost, which approximates fair value. As of June 30, 2019 and December 31, 2018, short-term marketable securities in the amount of approximately \$1.1 million, consist of certificates of deposit with various financial institutions, reported at par value plus accrued interest, with maturity dates from four months to twelve months (see fair value measurements of financial instruments below). Investments in certificates of deposits are classified as Level 1 investments in the fair value hierarchy.

Receivables and Receivables – Related Parties

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.

The Company's receivables – related parties are comprised of risk pool settlements and incentive receivables, management fee income and other receivables. Receivables – related parties are recorded and stated at the amount expected to be collected.

Capitation and claims receivable relate to each 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 quarterly based on reports received from our hospital partners and management's estimate of the Company's

portion of the estimated risk pool surplus for open performance years. Settlement of risk pool surplus or deficits occurs approximately 18 months after the risk pool performance year is completed. During the six months ended June 30, 2019, recoverable claims paid related to the 2019 APAACO performance year to be administered following instructions from CMS, fee-for-services (“FFS”) reimbursement for patient care, certain expense reimbursements, transportation reimbursements from the hospitals, and stop loss insurance premium reimbursements are included in “Other receivables” in the accompanying condensed consolidated balance sheet.

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 analyses 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 these 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. As of June 30, 2019 and December 31, 2018, the Company’s allowance for doubtful accounts was approximately \$2.9 million and approximately \$4.3 million, respectively.

Concentrations of Risks

The Company disaggregates revenue from contracts by service type and payor type. 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 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 six months ended June 30, 2019 and 2018:

Three Months Ended June 30,	2019	2018
Commercial	\$ 25,364,588	\$ 29,601,757
Medicare	57,964,880	54,776,111
Medicaid	36,276,874	26,959,315
Other third parties	10,443,224	11,329,348
Revenue	<u>\$ 130,049,566</u>	<u>\$ 122,666,531</u>

Six Months Ended June 30,	2019	2018
Commercial	\$ 50,383,600	\$ 55,366,879
Medicare	95,062,722	107,331,859
Medicaid	61,647,399	62,552,664
Other third parties	18,713,016	21,338,375
Revenue	<u>\$ 225,806,737</u>	<u>\$ 246,589,777</u>

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

	For the Three Months Ended June 30,	
	2019	2018
Payor A	13.7%	11.3%
Payor B	12.6%	16.6%
Payor C	10.5%	11.6%
Payor D	13.7%	17.9%

	For the Six Months Ended June 30,	
	2019	2018
Payor A	15.8%	12.5%
Payor B	14.3%	15.7%
Payor C	11.7%	13.3%
Payor D	*%	14.9%

* Less than 10% of total net revenues

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

	As of June 30, 2019	As of December 31, 2018
Payor E	29.0%	34.1%
Payor F	34.0%	42.2%

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, 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 condensed 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.

Financial Accounting Standards Board ("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 June 30, 2019 are presented below:

	Fair Value Measurements			Total
	Level 1	Level 2	Level 3	
Assets				
Money market funds*	\$ 28,534,501	\$ —	\$ —	\$ 28,534,501
Marketable securities – certificates of deposit	1,074,280	—	—	1,074,280
Marketable securities – equity securities	75,548	—	—	75,548
Total	\$ 29,684,329	\$ —	\$ —	\$ 29,684,329

The carrying amounts and fair values of the Company's financial instruments as of December 31, 2018 are presented below:

	Fair Value Measurements			Total
	Level 1	Level 2	Level 3	
Assets				
Money market funds*	\$ 85,500,745	\$ —	\$ —	\$ 85,500,745
Marketable securities – certificates of deposit	1,066,103	—	—	1,066,103
Marketable securities – equity securities	60,999	—	—	60,999
Total	\$ 86,627,847	\$ —	\$ —	\$ 86,627,847

* Included in cash and cash equivalents

There were no Level 3 inputs measured on a recurring basis for the six months ended June 30, 2019.

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 six months ended June 30, 2019.

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 patient 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 six months ended June 30, 2019 and 2018.

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, or sooner if events or changes in circumstances indicate that an impairment has occurred, the Company performs a qualitative assessment to determine whether it is more likely than not that the fair value of each reporting unit is less than its carrying amount as a basis for determining whether it is necessary to complete quantitative impairment assessments for each of the Company's three main reporting units (1) management services, (2) IPA, and (3) ACO. The Company is required to perform a quantitative goodwill impairment test only if the conclusion from the qualitative assessment is that it is more likely than not that a reporting unit's fair value is less than the carrying value of its assets. Should this be the case, a quantitative analysis is performed to identify whether a potential impairment exists by comparing the estimated fair values of the reporting units with their respective carrying values, including goodwill.

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 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 six months ended June 30, 2019 and 2018.

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 condensed 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. As of June 30, 2019, the Company recognized an impairment loss of \$0.3 million related to its investment in Pacific Ambulatory Surgery Center, LLC ("PASC") (included in loss from equity method investments in the accompanying condensed consolidated statements of income) as the Company does not expect to recover its investment (see Note 5).

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 condensed 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 condensed consolidated balance sheets. Medical liabilities include claims reported as of the balance sheet date and estimates 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. 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

The Company adopted Accounting Standards Update ("ASU") 2014-9, "Revenue from Contracts with Customers (Topic 606)" on January 1, 2018 and recognizes revenue in accordance with the applicable guidance.

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 IPAs); and (v) individual patients and clients.

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, and FFS revenue. Revenue is recorded in the period in which services are rendered or the period in which the Company is obligated to provide services. 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 a capitated arrangement directly made with various managed care providers including HMOs. Capitation revenue is typically 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 to plan enrollees under contracts with various health plans. 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.

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 PMPM 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 amount 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 the Company's 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 enters 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 hospital's 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 amount 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 historical MLR, IBNR completion factor and constraint percentages were used by management in applying the most likely amount method.

Under capitated arrangements with certain HMOs 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 amount methodology, and only included in revenue to the extent that it is probable that a significant reversal of cumulative revenue will not occur. Given the lack of access to the health plans' data and control over the members assigned to APC, the adjustments and/or the withheld amounts are unpredictable and as such APC's risk share revenue is deemed to be fully constrained until APC is notified of the amount by the health plan. Risk pools for the prior contract years are generally final settled in the third or fourth quarter of the following year.

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 earned under "pay-for-performance" programs are recognized using the most likely amount methodology. However, as the Company does not have sufficient insight from the health plans on the amount and

timing of the shared risk pool and incentive payments, these amounts are considered to be fully constrained and only recorded when such payments are known and/or 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

APAACO and CMS entered into a Next Generation ACO Model Participation Agreement (the "Participation Agreement") with an initial term of two performance years through December 31, 2018, which has been extended for another two renewal 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.

Under the NGACO Model, CMS aligns beneficiaries to the Company to manage (direct care and pay providers) based on a budgetary benchmark established with CMS. The Company is responsible for managing medical costs for these beneficiaries. The beneficiaries 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 and paid by CMS and the Company's shared savings 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 savings 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 beneficiaries aligned to the Company by CMS are served by in-network and out-of-network providers. The Company's savings 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. The Company records NGACO capitation revenues monthly, as that is when the Company is obligated to provide services to its members. Excess, over claims paid plus an estimate for the related IBNR (see Note 8), monthly capitation received are deferred and recorded as a liability until actual claims are paid or incurred. CMS will determine if there were any excess capitation paid for the performance year and the excess is refunded to CMS. Further, 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.

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. If CMS owes the Company shared savings or other monies, 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 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, among other factors, 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 fully constrained.

For performance year 2018, the Company received monthly AIPBP payments at a rate of approximately \$7.3 million per month from CMS that started in February 2018, which was reduced to \$5.5 million per month beginning October 1, 2018. The Company 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. The Company continues to be eligible in receiving AIPBP payments under the NGACO Model for performance year 2019, with the effective date of the performance year beginning April 1, 2019. The monthly AIPBP payments have been increased from approximately \$5.5 million to approximately \$8.3 million per month for performance year 2019. The Company has received approximately \$24.8 million in total AIPBP payments for the six months ended June 30, 2019 of which \$17.8 million has been recognized as revenue. The Company also recorded an asset of approximately \$11.6 million related to recoverable claims paid during the six months ended June 30, 2019 which will be administered following instructions from CMS. This balance is included in "Other receivables" in the accompanying condensed consolidated balance sheet.

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. The Company recognizes such variable supplemental revenues 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.

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 condensed consolidated 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. Patient encounters and related episodes of care and procedures qualify as distinct goods and services, provided simultaneously together with other readily available resources, in a single instance of service, and thereby constitute a single performance obligation for each patient encounter and, in most instances, occur at readily determinable transaction prices. As a practical expedient, the Company adopted a portfolio approach for the FFS revenue stream to group contracts with similar characteristics and analyze historical cash collections trends. The contracts within the portfolio share the characteristics conducive to ensuring that the results do not materially differ under the new standard if it were to be applied to individual patient contracts related to each patient encounter. Accordingly, there was not a change in the Company's method to recognize revenue under ASC 606 from the previous accounting guidance.

Estimating net FFS revenue is a complex process, largely due to the volume of transactions, the number and complexity of contracts with payors, the limited availability at times of certain patient and payor information at the time services are provided, and the length of time it takes for collections to fully mature. These expected collections are based on fees and negotiated payment rates in the case of third-party payors, the specific benefits provided for under each patient's healthcare plans, mandated payment rates in the case of Medicare and Medicaid programs, and historical cash collections (net of recoveries) in combination with expected collections from third party payors.

The relationship between gross charges and the transaction price recognized is significantly influenced by payor mix, as collections on gross charges may vary significantly, depending on whether and with whom the patients the Company provides services to in the period are insured and the Company's contractual relationships with those payors. Payor mix is subject to change as additional patient and payor information is obtained after the period services are provided. The Company periodically assesses the estimates of unbilled revenue, contractual adjustments and discounts, and payor mix by analyzing actual results, including cash collections, against estimates. Changes in these estimates are charged or credited to the consolidated statement of income in the period that the assessment is made. Significant changes in payor mix, contractual arrangements with payors, specialty mix, acuity, general economic conditions and health care coverage provided by federal or state governments or private insurers may have a significant impact on estimates and significantly affect the results of operations and cash flows.

Contract Assets

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

The Company's billing and accounting systems provide historical trends of cash collections and contractual write-offs, accounts receivable agings and established fee adjustments from third-party payors. These estimates are recorded and monitored monthly as revenues are recognized. The principal exposure for uncollectible fee for service visits is from self-pay patients and, to a lesser extent, for co-payments and deductibles from patients with insurance.

Contract Liabilities (Deferred Revenue)

Contract liabilities are recorded when cash payments are received in advance of the Company's performance, or in the case of the Company's NGACO, the excess of AIPBP capitation received and the actual claims paid or incurred. The Company's contract liability balance was \$15.5 million and \$9.1 million as of June 30, 2019 and December 31, 2018, respectively, and is presented within "Accounts payable and accrued expenses" in the accompanying condensed consolidated balance sheets. During the six months ended June 30, 2019, \$0.5 million of the Company's contracted liability accrued in 2018 has been recognized as revenue.

Leases

On January 1, 2019, the Company adopted Accounting Standards Update ("ASU") 2016-2, "Leases (Topic 842)." Refer to "Recent Accounting Pronouncements" below and to Note 16 – Leases for further details.

The Company determines if an arrangement is a lease at inception. Operating leases are included in "Right-of-use assets" and "Lease liabilities" in the accompanying condensed consolidated balance sheets. Finance leases are included in "Land, property and equipment, net" and "Capital lease obligations" in the accompanying condensed consolidated balance sheets.

Operating lease ROU assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. As none of our leases provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of future payments. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term.

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 condensed consolidated 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 condensed consolidated 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 14 for a discussion of shares treated as treasury shares for accounting purposes.

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. APC's shares are not redeemable and it is not probable that the shares will become redeemable as of June 30, 2019 and December 31, 2018.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-2, "Leases (Topic 842)" ("ASC 842"), which amends the existing accounting standards for leases to increase transparency and comparability among organizations by requiring the recognition of right of use ("ROU") assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The Company adopted ASC 842 effective January 1, 2019 using the following practical expedients as permitted under the transition guidance within the new standard; (i) not reassess whether any expired or existing contracts are or contain leases; not reassess the lease classification for any expired or existing leases; not reassess initial direct costs for existing leases; and (ii) use hindsight in determining the lease term and in assessing impairment of the entity's ROU assets. The Company has also implemented additional internal controls to enable future preparation of financial information in accordance with ASC 842.

The standard had a material impact on our consolidated balance sheets, but did not materially impact our consolidated results of operations and had no impact on cash flows. The most significant impact was the recognition of ROU assets of \$14.3 million and lease liabilities of \$14.3 million for operating leases, while our accounting for finance leases remained substantially unchanged. The 2018 comparative information has not been restated and continues to be reported under the accounting standards in effect for that period (ASC 840). Refer to Note 16 – Leases for further details.

ASC 842 provides a number of optional practical expedients in transition. The Company elected: (1) the "package of practical expedients", which permits it not to reassess under the new standard its prior conclusions about lease identification, lease classification, and initial direct costs, and (2) the use-of-hindsight in determining the lease term and in assessing impairment of ROU assets. In addition, ASC 842 provides practical expedients for an entity's ongoing accounting that the Company has elected, comprised of the following: (1) the election for classes of underlying asset to not separate non-lease components from lease components, and (2) the election for short-term lease recognition exemption for all leases that qualify. Refer to Note 16 – Leases for further details.

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 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 1) 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 1 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 adopted ASU 2017-11 on January 1, 2019. The adoption of ASU 2017-11 did not have a material impact 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. Business Combination and Goodwill

On May 31, 2019, APC and APC-LSMA completed their acquisition of 100% of the capital stock of Alpha Care from Dr. Kevin Tyson for an aggregate purchase price of approximately \$45.1 million in cash, subject to post-closing adjustments. As part of the transaction the Company has paid \$2.0 million into an escrow account for potential post-closing adjustments. As of June 30, 2019 no post-closing adjustment is expected and as such the full amount is expected to be recovered, and is presented in the Prepaid expenses and other current assets line on the condensed consolidated balance sheets.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed, as of the acquisition date:

	Preliminary Balance Sheet
Assets acquired	
Cash and cash equivalents	\$ 3,568,554
Accounts receivable, net	10,335,664
Other current assets	1,534,212
Network relationship intangible assets	29,858,000
Goodwill	23,507,944
Accounts Payable	\$ (2,273,753)
Deferred tax liabilities	(8,355,343)
Medical liabilities	(13,119,714)
Net assets acquired	<u>\$ 45,055,564</u>
Cash paid	<u>\$ 45,055,564</u>

The acquisition was accounted for under the purchase method of accounting. The purchase consideration of the acquired company was allocated to acquired tangible and intangible assets and liabilities based upon their fair values. The excess of the purchase consideration over the fair value of the net tangible and identifiable intangible assets acquired was recorded as goodwill. The determination of the fair value of assets and liabilities acquired requires the Company to make estimates and use valuation techniques when market value is not readily available. The results of operations of the company acquired have been included in the Company's financial statements from the date of acquisition. Transaction costs associated with business acquisitions are expensed as they are incurred.

At the time of acquisition, the Company estimates the amount of the identifiable intangible assets based on a valuation and the facts and circumstances available at the time. The Company determines the final value of the identifiable intangible assets as soon as information is available, but not more than 12 months from the date of acquisition.

Goodwill is not deductible for tax purposes.

The change in the carrying value of goodwill for the six months ended June 30, 2019 is as follows:

Balance, January 1, 2019	\$ 185,805,880
Acquisition of Alpha Care	23,507,944
Balance, June 30, 2019	<u>\$ 209,313,824</u>

4. Intangible Assets, Net

At June 30, 2019, the Company's intangible assets, net, consisted of the following:

	Useful Life (Years)	Gross June 30, 2019	Accumulated Amortization	Net June 30, 2019
Indefinite Lived Assets:				
Medicare license	N/A	\$ 1,994,000	\$ —	\$ 1,994,000
Amortized Intangible Assets:				
Network relationships	11-15	139,741,000	(54,094,505)	85,646,495
Management contracts	15	22,832,000	(8,616,362)	14,215,638
Member relationships	12	6,696,000	(1,820,905)	4,875,095
Patient management platform	5	2,060,000	(652,333)	1,407,667
Tradename/trademarks	20	1,011,000	(80,037)	930,963
		<u>\$ 174,334,000</u>	<u>\$ (65,264,142)</u>	<u>\$ 109,069,858</u>

At December 31, 2018, the Company's intangible assets, net, consisted of the following:

	Useful Life (Years)	Gross December 31, 2018	Accumulated Amortization	Net December 31, 2018
Indefinite Lived Assets:				
Medicare license	N/A	\$ 1,994,000	\$ —	\$ 1,994,000
Amortized Intangible Assets:				
Network relationships	11-15	109,883,000	(48,361,773)	61,521,227
Management contracts	20	22,832,000	(7,447,581)	15,384,419
Member relationships	12	6,696,000	(1,289,667)	5,406,333
Patient management platform	5	2,060,000	(446,333)	1,613,667
Tradename/trademarks	20	1,011,000	(54,763)	956,237
		<u>\$ 144,476,000</u>	<u>\$ (57,600,117)</u>	<u>\$ 86,875,883</u>

Included in depreciation and amortization on the accompanying condensed consolidated statements of income is amortization expense of \$3.8 million and \$4.2 million (excluding \$0.1 million of amortization expense for exclusivity incentives) for the three months ended June 30, 2019 and 2018, respectively, and \$7.7 million and \$8.6 million (excluding \$0.2 million of amortization expense for exclusivity incentives) for the six months ended June 30, 2019 and 2018, respectively.

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

	Amount
2019 (excluding the six months ended June 30, 2019)	\$ 8,155,000
2020	14,968,000
2021	13,257,000
2022	11,744,000
2023	10,090,000
Thereafter	48,862,000
	<u>\$ 107,076,000</u>

5. Investments in Other Entities

Equity Method Investment Summary

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

	June 30, 2019	December 31, 2018
LaSalle Medical Associates – IPA Line of Business	\$ 6,827,190	\$ 7,054,888
Pacific Medical Imaging & Oncology Center, Inc.	1,511,276	1,359,494
Universal Care, Inc.	8,159,432	2,635,945
Accountable Health Care IPA- related party	665,372	4,977,957
Diagnostic Medical Group	2,434,938	2,257,346
Pacific Ambulatory Surgery Center, LLC	—	285,198
531 W. College, LLC – related party	16,238,833	16,273,152
MWN, LLC – related party	66,000	33,000
	<u>\$ 35,903,041</u>	<u>\$ 34,876,980</u>

LaSalle Medical Associates

Founded by Dr. Albert Arteaga in 1996, LaSalle Medical Associates (“LMA”) operates four neighborhood medical centers employing more than 120 dedicated healthcare professionals, treating children, adults and seniors in San Bernardino County, California. 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 313,000 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 \$5.0 million 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 June 30, 2019 and 2018, APC recorded losses from this investment of \$1.3 million and \$0.6 million, respectively, in the accompanying condensed consolidated statements of income. For the six months ended June 30, 2019 and 2018, APC recorded losses from this investment of \$2.4 million and \$1.0 million, respectively, in the accompanying condensed consolidated statements of income. During the period ended June 30, 2019, the Company contributed \$2.1 million to LMA as part of its 25% interest. The accompanying condensed consolidated balance sheets include the related investment balance of \$6.8 million and \$7.1 million at June 30, 2019 and December 31, 2018, respectively.

LMA’s summarized balance sheets at June 30, 2019 and December 31, 2018 and summarized statements of operations for the six months ended June 30, 2019 and 2018 with respect to its IPA line of business are as follows:

Balance Sheets

	June 30, 2019	December 31, 2018
Assets		
Cash and cash equivalents	\$ 6,338,344	\$ 18,444,702
Receivables, net	6,864,902	2,897,337
Other current assets	3,526,319	5,459,442
Loan receivable	2,250,000	1,250,000
Restricted cash	676,774	667,414
	<u>\$ 19,656,339</u>	<u>\$ 28,718,895</u>

Liabilities and Stockholders' (Deficit) Equity

	June 30, 2019	December 31, 2018
Current liabilities	\$ 23,536,048	\$ 26,837,814
Stockholders' (deficit) equity	(3,879,709)	1,881,081
Total liabilities and stockholders' (deficit) equity	<u>\$ 19,656,339</u>	<u>\$ 28,718,895</u>

Statements of Operations

	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Revenues	\$ 93,434,476	\$ 110,311,466
Expenses	102,845,266	113,744,898
Net loss	<u>\$ (9,410,790)</u>	<u>\$ (3,433,432)</u>

Pacific Medical Imaging and Oncology Center, Inc.

Incorporated in California in 2004, 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 \$1.2 million for a 40% ownership interest in PMIOC.

Pursuant to an Ancillary Service Contract with APC, PMIOC provides covered services on behalf of APC to enrollees under APC's health plans. Under the Ancillary Service Contract, APC paid PMIOC fees of approximately \$0.6 million and \$0.8 million, for the three months ended June 30, 2019 and 2018, respectively, and fees of approximately \$1.4 million and \$1.2 million for the six months ended June 30, 2019 and 2018, 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 June 30, 2019 and 2018, APC recorded income from this investment of approximately \$81,315 and \$62,606 respectively, in the accompanying condensed consolidated statements of income. For the six months ended June 30, 2019 and 2018, APC recorded income from this investment of \$0.2 million and \$36,581, respectively, in the accompanying condensed consolidated statements of income. The accompanying condensed consolidated balance sheets include the related investment balances of \$1.5 million and \$1.4 million at June 30, 2019 and December 31, 2018, respectively.

Universal Care, Inc.

UCI is a privately held health plan that has been in operation since 1985. UCI holds a license under the California Knox-Keene Health Care Services Plan 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 purchased from UCI 100,000 shares of UCI class A-2 voting common stock from UCI for \$10.0 million, which shares comprise 48.9% of UCI's total outstanding shares and 50% of UCI's voting common stock. 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 June 30, 2019 and 2018, the Company recorded income from this investment of approximately \$4.5 million and \$1.7 million, respectively, in the accompanying condensed consolidated statements of income. During the six months ended June 30, 2019 and 2018, the Company recorded income from this investment of approximately \$5.5 million and \$1.7 million, respectively, in the accompanying condensed consolidated statements of income. The accompanying condensed consolidated balance sheets include the related investment balances of \$8.2 million and \$2.6 million at June 30, 2019 and December 31, 2018, respectively.

UCI's balance sheets at June 30, 2019 and December 31, 2018 and statements of income for the six months ended June 30, 2019 and 2018 are as follows:

Balance Sheets

	June 30, 2019	December 31, 2018
<u>Assets</u>		
Cash	\$ 44,503,392	\$ 27,812,520
Receivables, net	48,820,720	46,978,703
Other current assets	37,563,651	18,670,350
Other assets	673,893	661,621
Property and equipment, net	<u>3,071,398</u>	<u>2,786,996</u>
Total assets	\$ 134,633,054	\$ 96,910,190

Liabilities and Stockholders' Deficit

	June 30, 2019	December 31, 2018
<u>Current liabilities</u>		
Current liabilities	\$ 115,966,346	\$ 89,731,133
Other liabilities	25,005,609	25,024,043
Stockholders' deficit	<u>(6,338,901)</u>	<u>(17,844,986)</u>
Total liabilities and stockholders' deficit	\$ 134,633,054	\$ 96,910,190

Statements of Income

	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Revenues	\$ 247,517,017	\$ 149,825,595
Expenses	<u>239,388,926</u>	<u>146,614,334</u>
Income before benefit from income taxes	8,128,091	3,211,261
Benefit from income taxes	<u>(3,167,384)</u>	<u>(289,200)</u>
Net income (loss)	\$ 11,295,475	\$ 3,500,461

Accountable Health Care, IPA – Related Party

Accountable Health Care IPA, a Professional Medical Corporation ("Accountable Health Care") 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 400 primary and 700 specialty care physicians, and eight community and regional hospital medical centers that provide quality health care services to more than 160,000 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 Health Care 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 Health Care's current enterprise value. APC accounts for its investment in Accountable under the

equity method of accounting. During the three and six months ended June 30, 2019, the Company recorded losses from this investment of \$3.5 million and \$4.3 million, respectively, in the accompanying condensed consolidated statements of income. The accompanying condensed consolidated balance sheets include the related investment balances of \$0.7 million and \$5.0 million at June 30, 2019 and December 31, 2018, respectively.

On July 24, 2019, an agreement was reached between Accountable Health Care and APC-LSMA whereby APC-LSMA will assume all liabilities and assets of Accountable Health Care, in exchange for payment to Dr. Jay of \$7.3 million (see Note 17).

Accountable Health Care's balance sheets at June 30, 2019 and December 31, 2018 and statements of operations for the six months ended June 30, 2019 are as follows:

Balance Sheets

	June 30, 2019	December 31, 2018
<u>Assets</u>		
Cash	\$ 3,501,839	\$ 5,582,837
Receivables, net	—	11,246,477
Other current assets	30,940	30,940
Other assets	1,312,768	1,312,768
Property and equipment, net	138,690	138,690
Total Assets	\$ 4,984,237	\$ 18,311,712

Liabilities and Stockholders' Deficit

	June 30, 2019	December 31, 2018
Current Liabilities	\$ 20,793,426	\$ 16,824,083
Other Liabilities	19,500,000	19,500,000
Stockholders' deficit	(35,309,189)	(18,012,371)
Total liabilities and stockholders' deficit	\$ 4,984,237	\$ 18,311,712

Statement of Operation

	Six Months Ended June 30, 2019
Revenues	\$ 46,813,524
Expenses	64,063,864
Loss before provision for income taxes	(17,250,340)
Provision for income taxes	—
Net loss*	\$ (17,250,340)

* 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”), David C.P. Chen M.D., individually and APC-LSMA, entered into a share purchase agreement whereby APC-LSMA acquired a 40% ownership interest in DMG for total cash consideration of \$1.6 million.

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 months ended June 30, 2019 and 2018, APC recorded income from this investment of \$0.2 million and \$0.4 million, respectively, in the condensed consolidated statements of income. For the six months ended June 30, 2019 and 2018, APC recorded income from this investment of \$0.4 million and \$0.7 million, respectively, in the condensed consolidated statements of income. During the six months ended June 30, 2019 the Company received dividends from its investment in DMG of \$0.3 million. The accompanying condensed consolidated balance sheets include the related investment balances of \$2.4 million and \$2.3 million as of June 30, 2019 and December 31, 2018, 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 healthcare service plans, IPAs, medical groups and other purchasers of healthcare services for the provision of outpatient surgery center services to health plan subscribers and enrollees. 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 \$0.8 million.

During the six months ended June 30, 2019, the Company recognized an impairment loss of \$0.3 million related to its investment in PASC as the Company does not believe it will recover its investment balance. Such impairment loss is included in loss from equity method investment in the accompanying condensed consolidated statements of income.

APC accounted 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 six months ended June 30, 2018, APC recorded income from this investment of \$87,407 and \$0.1 million, respectively, in the accompanying condensed consolidated statements of income. The accompanying condensed consolidated balance sheets include the related investment balance of \$0.3 million as of December 31, 2018.

In 2019, APC advanced \$0.3 million to PASC for working capital purposes. The repayment of the advance is based on collections of PASC’s outstanding AR, and accordingly, the entire amount has been classified under “Other Assets” in the accompanying condensed consolidated balance sheets in the amount of \$0.3 million as of June 30, 2019.

531 W. College LLC – Related Party

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 \$16.7 million, \$8.3 million, and \$8.3 million, respectively.

On June 29, 2018, 531 W. College, LLC closed its purchase of a non-operational hospital located in Los Angeles from Societe Francaise De Bienfaisance Mutuelle De Los Angeles, a California nonprofit corporation, for a total purchase price of \$33.3 million. On April 23, 2019, NMM and APC entered into an agreement whereby NMM assigned and APC assumed NMM’s 25% membership interest in 531 W. College, LLC for approximately \$8.3 million. Subsequently, APC has a 50% ownership in 531 W. College LLC with a total investment balance of approximately \$16.2 million.

APC accounts for its investment in 531 W. College, LLC under the equity method of accounting as APC has the ability to exercise significant influence, but not control over the operations of this joint venture. APC’s investment is presented as an investment in other entities - equity method in the accompanying condensed consolidated balance sheet as of June 30, 2019 and December 31, 2018

For the six months ended June 30, 2019, APC recorded losses from its investment in 531 W. College LLC of \$34,319 in the accompanying condensed consolidated statements of income. The accompanying condensed consolidated balance sheets include the related investment balance of \$16.2 million related to APC’s investment at June 30, 2019.

531 W. College LLC’s balance sheets at June 30, 2019 and December 31, 2018 and statements of operations for the six months ended June 30, 2019 are as follows:

Balance Sheet

	June 30, 2019	December 31, 2018
<u>Assets</u>		
Cash	141,616	158,088
Other current assets	—	16,137
Other assets	70,000	70,000
Property and equipment, net	<u>\$ 33,394,792</u>	<u>\$ 33,394,792</u>
Total assets	<u>\$ 33,606,408</u>	<u>\$ 33,639,017</u>
<u>Liabilities and Members' Equity</u>		
Current liabilities	\$ 1,128,741	\$ 1,007,413
Stockholders' equity	32,477,667	32,631,604
Total liabilities and members' equity	<u>\$ 33,606,408</u>	<u>\$ 33,639,017</u>

Statements of Operation

	June 30, 2019
Revenues	—
Expenses	538,437
Loss from operations	(538,437)
Other Income	<u>\$ 384,500</u>
Net loss*	<u>\$ (153,937)</u>

* The Company's investment in 531 W. College, LLC commenced on June 27, 2018.

MWN LLC – Related Party

On December 18, 2018, NMM, 6 Founders LLC, a California limited liability company doing business as Pacific6 Enterprises ("Pacific6"), and Health Source MSO Inc., a California corporation ("HSMSO") entered into an operating agreement to govern MWN Community Hospital, LLC and the conduct of its business and to specify their relative rights and obligations. NMM, Pacific6, and HSMSO each owns 33.3% of the membership shares based on each member's initial capital contributions of \$3,000 and working capital contributions of \$30,000. During the six months ended June 30, 2019, NMM invested an additional \$33,000 for working capital purposes. The accompanying condensed consolidated balance sheets include the related investment balance of \$66,000 and \$33,000 as of June 30, 2019 and December 31, 2018, respectively.

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 \$0.4 million or \$1.50 per membership interest, which represented an approximately 2.8% ownership interest. In connection with the initial purchase, APC received a 5-year warrant to purchase an additional 270,000 membership interests. Additionally, APC received a 5-year option to purchase an additional 380,000 membership interests and a 5-year warrant to purchase 480,000 membership interests, which MediPortal LLC granted APC upon completion of its health portal, which has not been completed as of June 30, 2019. 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 – Related Parties

Dr. Albert Arteaga

On June 28, 2019 APC entered into a convertible secured promissory note with Dr. Albert H. Arteaga, M.D. ("Dr. Arteaga"), Chief Executive Officer of LMA, to loan \$6.4 million to Dr. Arteaga. Interest on the loan accrues at a rate that is equal to the prime rate plus 1% (6.50% as of June 30, 2019) and payable in monthly installments of interest only on the first day of each month until the maturity date of June 28, 2020, at which time, all outstanding principal and accrued interest thereon shall be due and payable in full. The note is secured by certain shares of LMA common stock held by Dr. Arteaga.

At any time on or before December 31, 2019, and upon written notice by APC to Dr. Arteaga, APC has the right, but not the obligation, to convert the entire outstanding principal amount of this note into shares of LMA common stock which equal 21.25% of the aggregate then-issued and outstanding shares of LMA common stock to be held by APC's designee, which may include APC-LSMA. If converted, APC-LSMA and APC's designee will collectively own 46.25% of the equity of LMA with the remaining 53.75% to be owned by Dr. Arteaga. The entire note receivable has been classified under loans receivable - related parties on the condensed consolidated balance sheets in the amount of as \$6.4 million as of June 30, 2019.

Accountable Health Care IPA

On October 9, 2017, NMM and APC-LSMA entered into an agreement with Accountable Health Care, 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% (6.50% as of June 30, 2019 and December 31, 2018) 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 June 30, 2019 and December 31, 2018 was \$5.0 million and \$5.0 million, respectively.

Concurrently with the funding of the Dr. Jay Loan, Dr. Jay loaned to Accountable Health Care 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 Health Care'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 Health Care'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 Health Care shares based on Accountable Health Care'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 Health Care 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 Health Care's current enterprise value, which has not been completed as of the filing date of this Report. APC accounted for its investment in Accountable Health Care under the equity method of accounting (See Note 5).

Subsequent to the funding of the Dr. Jay Loan, to the extent needed by Accountable Health Care 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 Health Care's issued and outstanding shares will be required. As of June 30, 2019 there has been no amounts drawn on this line of credit.

Universal Care, Inc.

In 2015, APC advanced \$5.0 million on behalf of UCAP to UCI for working capital purposes. On June 29, 2018, and November 28, 2018, APC advanced an additional \$2.5 million and \$5.0 million, respectively. These subordinated loans accrue interest at the prime rate plus 1%, or 6.50%, as of June 30, 2019 and December 31, 2018, with interest to be paid monthly. The repayment schedule 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 \$12.5 million as of June 30, 2019 and December 31, 2018.

7. Accounts Payable and Accrued Expenses

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

	June 30, 2019	December 31, 2018
Accounts payable	\$ 4,768,708	\$ 4,481,544
Specialty capitation payable	300,000	300,000
Subcontractor IPA risk pool payable	2,760,162	2,532,750
Professional fees	3,249,220	2,251,741
Due to related parties	1,072,563	1,488,313
Contract liabilities	15,471,349	9,024,235
Accrued compensation	3,036,271	4,996,906
	<u>\$ 30,658,273</u>	<u>\$ 25,075,489</u>

8. Medical Liabilities

The Company's medical liabilities consisted of the following:

	June 30, 2019	December 31, 2018
Balance, beginning of period	\$ 33,641,701	\$ 63,972,318
Acquired from Alpha Care (see Note 3)	13,119,714	—
Claims paid for previous period	(39,744,468)	(36,549,348)
Incurred health care costs	96,521,548	209,002,961
Claims paid for current period	(60,439,690)	(167,537,480)
Payment to CMS based on APAACO 2017 year settlement	—	(34,464,826)
Adjustments	(155,907)	(781,924)
	<u>\$ 42,942,898</u>	<u>\$ 33,641,701</u>

9. Bank Loan and Lines of Credit

Bank Loans

In December 2010, ICC obtained a loan of \$4.6 million from a financial institution. The loan bears interest based on the Wall Street Journal "prime rate", or 5.50% per annum, as of December 31, 2018. The loan was collateralized by the medical equipment ICC owns and guaranteed by one of ICC's shareholders. The loan matured on December 31, 2018 and final payment was made in January 2019.

Lines of Credit – Related Party

On June 14, 2018, NMM amended its promissory note agreement with Preferred Bank ("NMM Business Loan Agreement"), which provides for loan availability of up to \$20.0 million with a maturity date of June 22, 2020. One of the Company's board members is the chairman and CEO of Preferred Bank. The NMM Business Loan Agreement was subsequently amended on September 1, 2018 to temporarily increase the loan availability from \$20.0 million to \$27.0 million for the period from September 1, 2018 through January 31, 2019, further extended to October 31, 2019 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 5.625%, as of June 30, 2019 and December 31, 2018. The loan is guaranteed by Apollo Medical Holdings, Inc. and is collateralized by substantially all of the assets of NMM. The amounts outstanding as of June 30, 2019 and December 31, 2018 were \$5.0 million and \$13.0 million, respectively. As of June 30, 2019 and December 31, 2018, availability under this line of credit was \$15.4 million and \$0.7 million, respectively.

On September 5, 2018, NMM entered into a non-revolving line of credit agreement with Preferred Bank, which provides for loan availability of up to \$20.0 million with a maturity date of September 5, 2019. This credit facility was subsequently amended on April 17, 2019 to reduce the loan availability from \$20.0 million to \$16.0 million. The interest rate is based on the Wall Street Journal "prime rate" plus 0.125%, or 5.625%, as of June 30, 2019 and December 31, 2018. The line of credit is guaranteed by Apollo Medical Holdings, Inc. and is collateralized by substantially all assets of NMM. NMM obtained this line of credit to finance potential acquisitions. Each drawdown from the line of credit is 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 based on the aggregate amount drawn. As of June 30, 2019 and December 31, 2018, availability under this line of credit was \$16.0 million and \$20.0 million, respectively.

On June 14, 2018, APC amended its promissory note agreement with Preferred Bank, which provides for loan availability of up to \$10.0 million with a maturity date of June 22, 2020. This credit facility was subsequently amended on April 17, 2019 and June 11, 2019 to increase the loan availability from \$10.0 million to \$40.0 million and extend the maturity date through December 31, 2020. The interest rate is based on the Wall Street Journal "prime rate" plus 0.125%, or 5.625%, as of June 30, 2019 and December 31, 2018. The loan is also collateralized by substantially all assets of APC. During the six month period ended June 30, 2019 the Company drew down \$39.6 million for capital to acquire Alpha Care. The amount outstanding as of June 30, 2019 and December 31, 2018 was \$39.6 million and \$0, respectively. As of June 30, 2019 and December 31, 2018, availability under this line of credit was \$0.1 million and \$9.7 million, respectively.

Standby Letters of Credit

On March 3, 2017, APAACO established an irrevocable standby letter of credit with Preferred Bank (through the NMM Business Loan Agreement) for \$6.7 million for the benefit of CMS. The letter of credit expired on December 31, 2018 and was 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. As of June 30, 2019, CMS has released the Company from this obligation.

On October 3, 2018, APAACO established a second irrevocable standby letter of credit with Preferred Bank (through the NMM Business Loan Agreement) for \$6.6 million for the benefit of CMS. The letter of credit expires on December 31, 2019 and is 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 \$0.3 million 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.

As part of the Alpha Care acquisition, the Company assumed responsibility over irrevocable standby letters of credit with two financial institutions for approximately \$3.5 million. The standby letters of credit will expire by October 2019 but are automatically extended without amendment for additional one - year periods from the expiration date. In addition, the Company is required to maintain a cash balance equal to the amounts of the standby letters of credit. As of June 30, 2019, the amount of restricted cash associated to these standby letters of credit is \$3.5 million.

10. Mezzanine and Stockholders' Equity

Mezzanine

APC

Pursuant to the shareholder agreements that APC has entered into with its shareholders, in the event of certain disqualifying events specified in the agreements (e.g., the shareholder's death, disability or retirement from the practice of medicine or breach of physician or other agreements with APC), APC has the option to purchase the shares of APC capital stock held by such shareholder for a purchase price specified therein. As APC's shares of capital stock are redeemable upon the occurrence of events that are not solely within APC's control, such APC shares are classified as mezzanine or temporary equity rather than as permanent equity. Accordingly, the Company recognizes noncontrolling interests in APC as mezzanine equity in the condensed consolidated financial statements. APC's shares are not redeemable and it is not probable that the shares will become redeemable as of June 30, 2019 and December 31, 2018.

On December 18, 2018, the Company entered into a settlement agreement and mutual release with former APCN shareholders to repurchase all the equity interests in APC previously held by these shareholders. APC paid approximately \$1.7 million to repurchase 1,662,571 shares of common stock.

Stockholders' Equity

As of the date of this Report, 480,212 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.

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 (in millions)
Options outstanding at January 1, 2019	647,240	\$ 5.62	4.13	\$ 9.2
Options granted	45,000	18.11	—	—
Options exercised	(111,000)	4.56	—	1.4
Options forfeited	—	—	—	—
Options outstanding at June 30, 2019	581,240	\$ 6.79	3.44	\$ 5.8
Options exercisable at June 30, 2019	547,490	\$ 5.74	3.18	\$ 5.8

During the six months ended June 30, 2019 and 2018, stock options were exercised for 111,000 and 240,500 shares, respectively, of the Company's common stock, which resulted in proceeds of approximately \$0.5 million and \$0.8 million, respectively. The exercise price range from \$1.50 to \$5.79 per share for the exercises during the six months ended June 30, 2019 and ranged from \$0.01 to \$10.00 per share for the exercises during the six months ended June 30, 2018.

During the six months ended June 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 six months ended June 30, 2019, the Company granted 45,000 stock options to certain ApolloMed board members which were recognized at fair value, as determined using the Black-Scholes option pricing model and the following assumptions:

	June 30, 2019
Expected Term	3.0 years
Expected volatility	100.27%
Risk-free interest rate	2.51%
Market value of common stock	\$ 18.11
Annual dividend yield	—%
Forfeiture rate	0%

During the six months ended June 30, 2019, the Company recorded approximately \$0.2 million of share-based compensation expense associated with the issuance of restricted shares of common stock and vesting of stock options which is included in General and administrative expenses in the accompanying condensed consolidated statement of income.

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

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in millions)
Options outstanding at January 1, 2019	853,800	\$ 0.167	0.75	\$ 0.5
Options granted	—	—	—	—
Options exercised	—	—	—	—
Options expired/forfeited	—	—	—	—
Options outstanding and exercisable at June 30, 2019	853,800	\$ 0.167	0.25	\$ 0.5

The aggregate intrinsic value is calculated as the difference between the exercise price and the estimated fair value of common stock as of June 30, 2019.

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 June 30,	
	2019	2018
Share-based compensation expense:		
General and administrative	\$ 202,382	\$ 202,382
	\$ 202,382	\$ 202,382

	Six Months Ended June 30,	
	2019	2018
Share-based compensation expense:		
General and administrative	\$ 404,764	\$ 404,764
	\$ 404,764	\$ 404,764

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 June 30, 2019 was \$0.2 million which is expected to be recognized over the remaining term of 3 months.

Warrants

The Company's outstanding warrants consisted of the following:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in millions)
Warrants outstanding at January 1, 2019	3,331,995	\$ 9.93	2.97	\$ 33.1
Warrants granted	—	—	—	—
Warrants exercised	(41,624)	9.41	—	0.3
Warrants expired/forfeited	—	—	—	—
Warrants outstanding at June 30, 2019	3,290,371	\$ 9.93	2.48	\$ 22.3

Exercise Price Per Share	Warrants Outstanding	Weighted Average Remaining Contractual Life	Warrants Exercisable	Weighted Average Exercise Price Per Share
\$ 9.00	1,053,269	1.29	1,053,269	9.00
10.00	1,408,220	2.80	1,408,220	10.00
11.00	828,882	3.44	828,882	11.00
9.00 –11.00	3,290,371	2.48	3,290,371	\$ 9.93

During the six months ended June 30, 2019 and 2018, common stock warrants were exercised for 41,624 and 210,625 shares, respectively, of the Company's common stock, which resulted in proceeds of approximately \$0.4 million and \$1.5 million, respectively. The exercise price ranged from \$9.00 to \$11.00 per share for the exercises during the six months ended June 30, 2019 and \$4.00 to \$10.00 during the six months ended June 30, 2018.

Treasury Stock

APC owned 1,775,561 and 1,682,110 shares of ApolloMed's common stock as of June 30, 2019 and December 31, 2018, 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. Pursuant to the issuance of the Holdback Shares (see Note 14), 93,451 shares issued to APC are treated as treasury shares. The remaining treasury shares of 168,493 were repurchased from the former APCN shareholders in 2018.

Dividends

During the six months ended June 30, 2019 and 2018, APC paid dividends of \$10.0 million and \$2.0 million, respectively.

During the six months ended June 30, 2019, CDSC paid dividends of \$1.2 million.

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 Alpha Care is 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 June 30, 2019 and December 31, 2018, APC and Alpha Care was 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.

Affordable Care Act

The Patient Protection and Affordable Care Act ("PPACA") has made significant changes to the United States health care system. The legislation impacted multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Under this legislation, 33 states have expanded their Medicaid programs to cover previously uninsured childless adults, and four additional states voted in 2018 to expand Medicaid or to elect a governor that pledged to expand Medicaid. In addition, many uninsured individuals have had the opportunity to purchase health insurance via state-based marketplaces, state-based marketplaces using a federal platform, state-partnership marketplaces or the federally-facilitated marketplace. PPACA also implemented a number of health insurance market reforms, such as allowing children to remain on their parents' health insurance until age 26 or prohibiting certain plans from denying coverage based on pre-existing conditions. Nationally, these reforms have reduced the number of uninsured individuals.

It is unclear what changes may be made to PPACA with the divided Congress, current presidential administration, and pending litigation over the validity of PPACA. The Administration has promulgated rules to broaden the availability of coverage options that do not comply with the full range of PPACA requirements for individual market coverage, namely Association Health Plans and Short-Term Limited-Duration Insurance. The Administration has also provided additional guidance on state PPACA waivers. These executive actions have been or may be challenged in court. In addition, the Tax Cuts and Jobs Act ("TCJA"), passed in December 2017, eliminates the individual mandate penalty under PPACA, effective January 1, 2019. The individual mandate penalty was included in PPACA to address concerns that other market reforms expanding access to coverage might produce adverse selection and higher premiums. The extent to which the repeal of the individual mandate penalty will impact the uninsured rate and 2019 premiums is unclear at this juncture. On December 14, 2018, the United States District Court for the Northern District of Texas ruled that the individual mandate without the penalty is unconstitutional and that PPACA is therefore invalid in its entirety. Litigation on this issue is ongoing, with the Administration indicating it will continue implementing PPACA pending any appeals, the court ordering expedited briefing on a potential stay and certification of an interlocutory appeal, and pending litigation in the United States District Court for the District of Maryland to ensure continued implementation of PPACA. This litigation along with any future legislative changes to PPACA or other federal and state legislation could have a material impact on the operations of the Company. The Company is continuing to monitor the legislative environment and developments in pending litigation for risks and uncertainties.

Standby Letters of Credit

As part of the APAACO participation with CMS, the Company must provide a financial guarantee to CMS, the guarantee generally must be in an amount equal to 2% of our benchmark Medicare Part A and Part B expenditures. The Company has established an irrevocable standby letters of credit with Preferred Bank, which is affiliated with one of the Company's board members, of \$6.6 million for the 2018 performance year (see Note 9).

APC established irrevocable standby letters of credit with a financial institution for a total of \$0.3 million 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 (see Note 9).

As part of the Alpha Care acquisition the Company assumed responsibility over irrevocable standby letters of credit with two financial institution for approximately \$3.5 million. The standby letters of credit are automatically extended without amendment for additional one - year periods from the expiration date (see Note 9).

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.

Prospect Medical Systems

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. The resolution of this matter and any potential range of loss in excess of any current accrual cannot be reasonably determined or estimated at this time primarily because the matter has not been fully arbitrated and presents unique regulatory and contractual interpretation issues.

Liability Insurance

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

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

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 \$5.0 million. On June 28, 2018 and November 28, 2018, UCAP entered into two additional subordinated note receivable agreements with UCI in the amount of \$2.5 million and \$5.0 million, respectively (see Note 6).

During the three and six months ended June 30, 2019 and 2018, NMM earned approximately \$5.2 million and \$5.2 million, respectively, and \$8.4 million and \$9.9 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 six months ended June 30, 2019 and 2018, APC paid approximately \$0.6 million and \$0.8 million, respectively, and \$1.4 million and \$1.2 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 six months ended June 30, 2019 and 2018, APC paid approximately \$1.8 million and \$2.1 million, respectively, and \$3.8 million and \$3.7 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 six months ended June 30, 2019 and 2018, APC paid approximately \$0.1 million and \$0.1 million, respectively, and \$0.1 million and \$0.2 million, 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 six months ended June 30, 2019 and 2018, APC paid approximately \$0.7 million and \$1.2 million, respectively, and \$2.0 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.

During the three and six months ended June 30, 2019 and 2018, APC paid an aggregate of approximately \$7.1 million and \$11.6 million, respectively, and \$16.4 million and \$20.8 million, respectively, to shareholders of APC for provider services, which include approximately \$1.9 million and \$3.9 million, respectively, and \$5.1 million and \$6.1 million, respectively, to shareholders who are also officers of APC.

During the three and six months ended June 30, 2019 and 2018, NMM paid approximately \$0.3 million and \$0.3 million, respectively and \$0.5 million and \$0.5 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 six months ended June 30, 2018, APC paid \$0.1 million and \$0.2 million, 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 six months ended June 30, 2019 and 2018, the Company paid approximately \$0.1 million and \$0.1 million, respectively, and \$0.2 million and \$0.1 million, respectively, to Critical Quality Management Corp (“CQMC”) for an office lease. CQMC shares common ownership with certain board members of APC.

During the three and six months ended June 30, 2019 and 2018, SCHC paid approximately \$0.1 million and \$0.1 million, respectively, and \$0.2 million and \$0.2 million, respectively, to Numen, LLC (“Numen”) for an office lease. Numen is owned by a shareholder of APC.

The Company has agreements with HSMSO, Aurion Corporation (“Aurion”), and AHMC Healthcare (“AHMC”) for services provided to the Company. One of the Company’s board members is an officer of AHMC, HSMSO and Aurion. Aurion is also partially owned by one of the Company’s board members. The following table sets forth fees incurred and income earned related to AHMC, HSMSO and Aurion Corporation:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
AHMC – Risk pool and Capitation	\$ 16,350,000	\$ 14,000,000	\$ 27,950,000	\$ 33,400,000
HSMSO – Management fees, net	(265,000)	(975,000)	(915,000)	(1,475,000)
Aurion – Management fees	(100,000)	(100,000)	(200,000)	(200,000)
Net total	\$ 15,985,000	\$ 12,925,000	\$ 26,835,000	\$ 31,725,000

The Company and AHMC has a risk sharing agreement with certain AHMC hospitals to share the surplus and deficits of each of the hospital pools. During the three and six months ended June 30, 2019 and 2018, the Company has recognized risk pool revenue under this agreement of \$10.2 million and \$8.2 million respectively and \$25.0 million and \$31.8 million, respectively, for which \$51.9 million and \$44.2 million remain outstanding as of June 30, 2019 and December 31, 2018, respectively.

In addition, affiliates wholly-owned by the Company’s officers, including our CEO, Dr. Lam, are reported in the accompanying condensed 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.

For equity method investments, loans receivable and line of credits from related parties, see Notes 5, 6 and 9, respectively.

13. Income Taxes

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 differences between the financial statement 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 June 30, 2019 due to the overall cumulative losses incurred 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 six months ended June 30, 2019 differed from the U.S. federal statutory rate primarily due to state income taxes, income from flow through entities, and change in valuation allowance.

As of June 30, 2019, 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.

14. Earnings Per Share

Basic earnings 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 attributable to Apollo Medical Holdings, Inc. by the weighted average number of shares of the Company's common stock issued and outstanding during such period. Diluted earnings 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, with 50% issued on the first anniversary of the merger and the remaining 50% issued on the second anniversary, 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. These Holdback Shares are excluded from the computation of basic earnings per share, but included in diluted earnings per share. As of June 30, 2019 and December 31, 2018 APC held 1,775,561 and 1,682,110 shares of ApolloMed's common stock, respectively, 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.

Below is a summary of the earnings per share computations:

Three Months Ended June 30,	2019	2018
Earnings per share – basic	\$ 0.10	\$ 0.08
Earnings per share – diluted	\$ 0.09	\$ 0.07
Weighted average shares of common stock outstanding – basic	34,540,059	32,674,459
Weighted average shares of common stock outstanding – diluted	37,962,555	37,850,679
Six Months Ended June 30,	2019	2018
Earnings per share – basic	\$ 0.11	\$ 0.15
Earnings per share – diluted	\$ 0.10	\$ 0.13
Weighted average shares of common stock outstanding – basic	34,518,461	32,548,662
Weighted average shares of common stock outstanding – diluted	37,896,837	37,935,773

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

Three Months Ended June 30,	2019	2018
Weighted average shares of common stock outstanding – basic	34,540,059	32,674,459
10% shares held back pursuant to indemnification clause	1,519,805	3,039,609
Stock options	363,593	692,506
Warrants	1,539,098	1,444,105
Weighted average shares of common stock outstanding – diluted	37,962,555	37,850,679
Six Months Ended June 30,	2019	2018
Weighted average shares of common stock outstanding – basic	34,518,461	32,548,662
10% shares held back pursuant to indemnification clause	1,519,805	3,039,609
Stock options	368,273	720,103
Warrants	1,490,298	1,627,399
Weighted average shares of common stock outstanding – diluted	37,896,837	37,935,773

15. 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. See Note 2 – “Basis of Presentation and Summary of Significant Accounting Policies” to the accompanying condensed consolidated financial statements for information on how the Company determines VIEs and its treatment.

The following table includes assets that can only be used to settle the liabilities of APC, including Alpha Care, and the creditors of APC, including Alpha Care, have no recourse to the Company, nor do creditors of the Company have recourse against the assets of APC, including Alpha Care. 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 affiliates, which are eliminated upon consolidation with NMM, are included in the accompanying condensed consolidated balance sheets.

	June 30, 2019	December 31, 2018
Assets		
Current assets		
Cash and cash equivalents	\$ 23,985,866	\$ 71,726,342
Restricted cash	3,537,470	—
Investment in marketable securities	1,074,280	1,066,103
Receivables, net	14,612,603	3,904,586
Receivables, net – related party	54,309,170	45,258,916
Prepaid expenses and other current assets	6,263,045	3,647,654
Loan receivable - related party, short term	6,425,000	—
Total current assets	<u>110,207,434</u>	<u>125,603,601</u>
Noncurrent assets		
Land, property and equipment, net	9,191,430	9,602,228
Intangible assets, net	83,395,176	58,984,420
Goodwill	79,721,384	56,213,450
Loans receivable – related parties	12,500,000	12,500,000
Investment in a privately held entity that does not report net asset value per share	4,725,000	4,725,000
Investments in other entities – equity method	36,060,869	26,707,404
Restricted cash	740,212	745,470
Right-of-use assets	3,989,196	—
Other assets	1,063,164	839,085
Total noncurrent assets	<u>231,386,431</u>	<u>170,317,057</u>
Total assets	<u>\$ 341,593,865</u>	<u>\$ 295,920,658</u>
Current liabilities		
Accounts payable and accrued expenses	\$ 6,982,147	\$ 6,378,751
Fiduciary accounts payable	1,798,807	1,538,598
Medical liabilities	36,756,473	24,983,110
Income taxes payable	—	11,621,861
Amount due to affiliate	13,084,786	11,505,680
Bank loan	—	40,257
Lease liabilities	837,984	—
Capital lease obligations	101,741	101,741
Total current liabilities	<u>59,561,938</u>	<u>56,169,998</u>
Noncurrent liabilities		
Lines of credit	39,600,000	—
Deferred tax liability	21,383,614	15,693,159
Liability for unissued equity shares	1,185,025	1,185,025
Lease liabilities	3,073,114	—
Capital lease obligations	466,771	517,261
Total noncurrent liabilities	<u>65,708,524</u>	<u>17,395,445</u>
Total liabilities	<u>\$ 125,270,462</u>	<u>\$ 73,565,443</u>

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

16. Leases

The Company has operating and finance leases for corporate offices, doctors' offices, and certain equipment. These leases have remaining lease terms of 1 month to 5 years, some of which may include options to extend the leases for up to 10 years, and some of which may include options to terminate the leases within one year. As of June 30, 2019 and December 31, 2018, assets recorded under finance leases were \$0.5 million, and accumulated depreciation associated with finance leases was \$0.2 million.

Also, the Company rents or subleases certain real estate to third parties, which are accounted for as operating leases.

Leases with an initial term of 12 months or less are not recorded on the balance sheet.

The components of lease expense were as follows:

	Three Months Ended June 30, 2019	Six Months Ended June 30, 2019
Operating lease cost	\$ 1,240,275	\$ 2,342,959
Finance lease cost		
Amortization of lease expense	\$ 25,339	\$ 50,489
Interest on lease liabilities	4,391	8,970
Sublease income	\$ (105,900)	\$ (206,080)
Total finance lease cost, net	\$ 1,164,105	\$ 2,196,338

Other information related to leases was as follows:

	Three Months Ended June 30, 2019	Six Months Ended June 30, 2019
Supplemental Cash Flows Information		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 1,239,312	\$ 2,272,865
Operating cash flows from finance leases	4,391	8,970
Financing cash flows from finance leases	25,339	50,489
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	6,441,363	15,417,482
Finance leases	—	—
		Six Months Ended June 30, 2019
Weighted Average Remaining Lease Term		
Operating leases		6.87 years
Finance leases		5.00 years
Weighted Average Discount Rate		
Operating leases		6.18%
Finance leases		3.00%

Future minimum lease payments under non-cancellable leases as of June 30, 2019 and December 31, 2018 were as follows:

June 30, 2019	Operating Leases	Finance Leases
2019 (excluding the six months ended June 30, 2019)	\$ 1,917,285	\$ 59,460
2020	3,615,177	118,920
2021	2,421,637	118,920
2022	2,077,157	118,920
2023	1,797,423	118,920
Thereafter	6,487,401	79,278
Total future minimum lease payments	18,316,080	614,418
Less: imputed interest	4,063,320	45,906
Total lease obligations	14,252,760	568,512
Less: current portion	2,836,010	101,741
Long-term lease obligations	\$ 11,416,750	\$ 466,771

December 31, 2018	Operating Leases	Finance Leases
2019	\$ 2,848,000	\$ 119,000
2020	2,267,000	119,000
2021	783,000	119,000
2022	487,000	119,000
2023	489,000	119,000
Thereafter	243,000	79,000
Total future minimum lease payments	<u>7,117,000</u>	<u>674,000</u>

As of June 30, 2019, the Company does not have additional operating and finance leases that have not yet commenced.

17. Subsequent Events

On July 24, 2019, an agreement was reached between Accountable Health Care and APC-LSMA whereby APC-LSMA will acquire from the transferring Accountable Health Care shareholder all of the remaining outstanding shares of Accountable Health Care that APC-LSMA does not already own, following which acquisition, APC-LSMA will become the sole shareholder of Accountable Health Care. As part of this settlement, on behalf of Accountable Health Care, APC will pay \$7.3 million as repayment of certain indebtedness owed by Accountable Health Care to the transferring Accountable Health Care shareholder.

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, 2018, filed with the U.S. Securities and Exchange Commission ("SEC") on March 18, 2019.

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, 2018.

In this section, "we," "our," "ours" and "us" refer to Apollo Medical Holdings, Inc. and its consolidated subsidiaries and affiliated entities, as appropriate, including its consolidated variable interest entities ("VIEs").

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 variable interest entities ("VIE").

Through our next generation accountable care organization ("NGACO") model and a network of independent practice associations ("IPAs") with more than 6,000 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 800,000 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 recent developments that are important to understanding our overall results of operations and financial condition.

Acquisition

On May 31, 2019, under the terms of the stock purchase agreement, APC and APC-LSMA acquired 100% of the capital stock of Alpha Care Medical Group, Inc. ("Alpha Care") from Dr. Kevin Tyson for an aggregate purchase price of \$45.0 million in cash. Alpha Care, an IPA which has been operating in California since 1993, is a risk bearing organization engaged in providing professional services under capitation arrangements with its contracted health plans through a provider network consisting of primary care and specialty care physicians. Alpha Care specializes in delivering high-quality healthcare to over 180m000 enrollees and focuses on Medi-Cal/Medicaid, Commercial, and Medicare and Dual Eligible members in the Riverside and San Bernardino counties of Southern California.

531 W. College

On April 23, 2019, NMM and APC entered into an agreement whereby NMM assigned and APC assumed NMM's 25% membership interest in 531 W. College LLC for approximately \$8.3 million. Subsequently, APC has a 50% ownership in 531 W. College LLC with a total investment balance of approximately \$16.2 million.

APC Business Transactions

On May 10, 2019, ApolloMed entered into a series of agreements with two of its affiliates, AP-AMH Medical Corporation ("AP-AMH"), a newly formed designated shareholder professional corporation owned by Dr. Thomas Lam, Chief Executive Officer and Chief Financial Officer of APC and Chief Executive Officer of ApolloMed, and APC as follows;

1. The Company agreed to lend AP-AMH \$545.0 million pursuant to a ten-year secured loan agreement. The loan will bear interest at a rate of 10% per annum simple interest, will not be prepayable (except in certain limited circumstances), will require quarterly payments of interest only, and will be secured by a first priority security interest in all of AP-AMH's assets, including the shares of APC Series A Preferred Stock to be purchased by AP-AMH, to the extent that AP-AMH is unable to make any interest payment when due because it has received dividends on the APC Series A Preferred Stock purchased with respect to such payment date in an amount insufficient to pay in full such interest payment, then the outstanding principal amount of the loan will be increased by the amount of any such accrued but unpaid interest, and any such increased principal amounts will bear interest at the rate of 10.75% per annum simple interest.
2. AP-AMH has agreed to purchase \$545.0 million of Series A Preferred Stock to be issued by APC to AP-AMH. Under the terms of the Series A Preferred Stock, AP-AMH is entitled to receive preferential, cumulative dividends that accrue on a daily basis and that are equal to the sum of (A) APC's net income from healthcare services, plus (B) any dividends received by APC from certain of APC's affiliated entities, less (C) any retained amounts.
3. APC has agreed to purchase \$300.0 million of the Company's common stock. The Company has agreed to grant APC certain registration rights with respect to the Company's common stock that APC purchases, and APC agreed to restrict its voting powers with respect to its shares.
4. The Company agreed to license certain of its trademarks to AP-AMH for a fee equal to a percentage of the aggregate gross revenues of AP-AMH. The license fee is payable out of any Series A Preferred Stock dividends received by AP-AMH from APC.
5. Through its subsidiary, the Company has agreed to provide certain administrative services to AP-AMH for a fee equal to a percentage of the aggregate gross revenues of AP-AMH. The administrative fee also is payable out of any APC Series A Preferred Stock dividends received by AP-AMH from APC.

The closing of foregoing transactions is contingent upon receiving the approval of the Company's stockholders. ApolloMed is holding a special meeting of its stockholders on August 27, 2019 in order to obtain the stockholder approvals necessary to complete the foregoing transactions. If consummated, these transactions will result in a fundamental change in the character of APC's healthcare services net income and how it is ultimately reflected on ApolloMed's consolidated statements of income. If consummated, the foregoing transactions will substantially affect the Company's future results of operations and its liquidity and capital resources.

Accountable Health Care

On July 24, 2019, an agreement was reached between Accountable Health Care and APC-LSMA whereby APC-LSMA will acquire from the transferring Accountable Health Care shareholder all of the remaining outstanding shares of Accountable Health Care that APC-LSMA does not already own, following which acquisition, APC-LSMA will become the sole shareholder of Accountable Health Care. As part of this settlement, on behalf of Accountable Health Care, APC will pay \$7.3 million as repayment of certain indebtedness owed by Accountable Health Care to the transferring Accountable Health Care shareholder.

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

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

	For the Three Months Ended		\$ Change	% Change
	June 30, 2019	June 30, 2018		
Revenue				
Capitation, net	\$ 103,223,692	\$ 90,316,182	\$ 12,907,510	14 %
Risk pool settlements and incentives	11,191,050	13,866,217	(2,675,167)	(19)%
Management fee income	10,352,619	12,371,608	(2,018,989)	(16)%
Fee-for-services, net	3,878,428	4,563,712	(685,284)	(15)%
Other income	1,403,777	1,548,812	(145,035)	(9)%
Total revenue	<u>130,049,566</u>	<u>122,666,531</u>	<u>7,383,035</u>	6 %
Operating expenses				
Cost of services	101,363,101	99,705,571	1,657,530	2 %
General and administrative expenses	11,817,555	10,893,135	924,420	8 %
Depreciation and amortization	4,454,571	4,918,078	(463,507)	(9)%
Provision for bad debt	(2,314,429)	—	(2,314,429)	— %
Total expenses	<u>115,320,798</u>	<u>115,516,784</u>	<u>(195,986)</u>	— %
Income from operations	<u>14,728,768</u>	<u>7,149,747</u>	<u>7,579,021</u>	106 %
Other income (expense)				
Income from equity method investments	(42,282)	1,669,861	(1,712,143)	(103)%
Interest expense	(311,049)	(110,683)	(200,366)	181 %
Interest income	473,664	492,723	(19,059)	(4)%
Other income	24,229	187,752	(163,523)	(87)%
Total other income, net	<u>144,562</u>	<u>2,239,653</u>	<u>(2,095,091)</u>	(94)%
Income before provision for income taxes	<u>14,873,330</u>	<u>9,389,400</u>	<u>5,483,930</u>	58 %
Provision for income taxes	4,209,399	1,523,807	2,685,592	176 %
Net income	<u>\$ 10,663,931</u>	<u>\$ 7,865,593</u>	<u>\$ 2,798,338</u>	36 %
Net income attributable to noncontrolling interests	7,118,715	5,201,491	1,917,224	37 %
Net income attributable to Apollo Medical Holdings, Inc.	<u>\$ 3,545,216</u>	<u>\$ 2,664,102</u>	<u>\$ 881,114</u>	33 %

	For the Six Months Ended			
	June 30,	June 30,		%
	2019	2018	\$ Change	Change
Revenue				
Capitation, net	\$ 174,740,470	\$ 176,221,466	\$ (1,480,996)	(1)%
Risk pool settlements and incentives	21,284,891	31,852,953	(10,568,062)	(33)%
Management fee income	19,349,219	24,446,180	(5,096,961)	(21)%
Fee-for-services, net	7,959,102	10,800,340	(2,841,238)	(26)%
Other income	2,473,055	3,268,838	(795,783)	(24)%
Total revenue	<u>225,806,737</u>	<u>246,589,777</u>	<u>(20,783,040)</u>	<u>(8)%</u>
Operating expenses				
Cost of services	184,795,575	184,320,257	475,318	— %
General and administrative expenses	22,081,515	22,441,474	(359,959)	(2)%
Depreciation and amortization	8,872,152	9,976,590	(1,104,438)	(11)%
Provision for bad debt	(1,363,415)	—	(1,363,415)	— %
Total expenses	<u>214,385,827</u>	<u>216,738,321</u>	<u>(2,352,494)</u>	<u>(1)%</u>
Income from operations	<u>11,420,910</u>	<u>29,851,456</u>	<u>(18,430,546)</u>	<u>(62)%</u>
Other income (expense)				
Income from equity method investments	(891,939)	1,641,837	(2,533,776)	(154)%
Interest expense	(522,028)	(195,684)	(326,344)	167 %
Interest income	796,672	762,541	34,131	4 %
Other income	211,345	275,745	(64,400)	(23)%
Total other income, net	<u>(405,950)</u>	<u>2,484,439</u>	<u>(2,890,389)</u>	<u>(116)%</u>
Income before provision for income taxes	<u>11,014,960</u>	<u>32,335,895</u>	<u>(21,320,935)</u>	<u>(66)%</u>
Provision for income taxes	2,801,158	8,752,647	(5,951,489)	(68)%
Net income	<u>\$ 8,213,802</u>	<u>\$ 23,583,248</u>	<u>\$ (15,369,446)</u>	<u>(65)%</u>
Net income attributable to noncontrolling interests	4,528,922	18,758,691	(14,229,769)	(76)%
Net income attributable to Apollo Medical Holdings, Inc.	<u>\$ 3,684,880</u>	<u>\$ 4,824,557</u>	<u>\$ (1,139,677)</u>	<u>(24)%</u>

Net Income Attributable to Apollo Medical Holdings, Inc.

Our net income attributable to Apollo Medical Holdings, Inc. for the three months ended June 30, 2019 was \$3.5 million, as compared to net income of \$2.7 million for the same period in 2018, an increase of \$0.8 million or 33%.

Our net income attributable to Apollo Medical Holdings, Inc. for the six months ended June 30, 2019 was \$3.7 million, as compared to net income of \$4.8 million for the same period in 2018, a decrease of \$1.1 million or 24%.

Physician Groups and Patients

As of June 30, 2019 and 2018, the total number of affiliated physician groups managed by us was 11 and 12 groups, respectively, and the total number of patients for whom we managed the delivery of healthcare services was approximately 812,000 and 1,019,000, respectively. The decrease was due to the closure of an affiliated physician group on January 31, 2019 as their primary health plan cancelled their contract.

Revenue

Our revenue for the three months ended June 30, 2019 was \$130.0 million, as compared to \$122.7 million for the three months ended June 30, 2018, an increase of \$7.3 million, or 6%. The increase in revenue was primarily attributable to the following:

(i) Capitation revenues increased by approximately \$12.9 million primarily due to the acquisition of Alpha Care as of May 31, 2019 which contributed revenues of approximately \$11.5 million for the three months ended June 30, 2019.

(ii) Risk pool revenue decreased by \$2.7 million due to the refinement of the assumptions used to estimate the amount of net surplus expected to be received from the affiliated hospitals' risk pools. Our estimated risk pool receivable is calculated

based on reports received from our hospital partners and on management's estimate of the Company's portion of any estimated risk pool surpluses in which payments have not been received. The actual risk pool surpluses are settled approximately 18 months later.

(iii) Management fee income decreased by \$2.1 million mainly due to a decrease in the number of patients served by some of our affiliated physician groups, including an affiliated physician group that ceased operations as their primary health plan cancelled their contract.

(iv) Fee-for-service revenue decreased by \$0.7 million due to strategic decisions in 2018 to wind down several medical groups affiliated with Apollo Medical Holdings, Inc. prior to the Merger. The operations of these medical groups, BAHA, AKM, and MMG, were not consistent with the Company's future business plans.

(v) Other income decreased by \$0.1 million

Our revenue for the six months ended June 30, 2019 was \$225.8 million, as compared to \$246.6 million for the six months ended June 30, 2018, a decrease of \$20.8 million, or 8%. The decrease in revenue was primarily attributable to the following:

(i) Capitation revenues decreased by approximately \$1.5 million primarily due to the delayed commencement by the Centers for Medicare & Medicaid Services ("CMS") of APAACO's 2019 Next Generation ACO performance year to April 1, 2019. This decreased revenue is offset with revenues from Alpha Care which was acquired as of May 31, 2019 and contributed approximately \$11.5 million of revenue for the six month period ended June 30, 2019.

(ii) Risk pool revenue decreased by \$10.6 million due to the refinement of the assumptions used to estimate the amount of net surplus expected to be received from the affiliated hospitals' risk pools. Our estimated risk pool receivable is calculated based on reports received from our hospital partners and on management's estimate of the Company's portion of any estimated risk pool surpluses in which payments have not been received. The actual risk pool surpluses are settled approximately 18 months later.

(iii) Management fee income decreased by \$5.1 million mainly due to a decrease in the number of patients served by some of our affiliated physician groups, including an affiliated physician group that ceased operations as their primary health plan cancelled their contract.

(iv) Fee-for-service revenue decreased by \$2.8 million due to strategic decisions in 2018 to wind down several medical groups affiliated with Apollo Medical Holdings, Inc. prior to the Merger. The operations of these medical groups, BAHA, AKM, and MMG, were not consistent with the Company's future business plans.

(v) Other income decreased by \$0.8 million as a result of changes in the accrual of revenue related to maternity supplemental payments.

Cost of Services

Expenses related to cost of services for the three months ended June 30, 2019 were \$101.4 million, as compared to \$99.7 million for the same period in 2018, an increase of \$1.7 million, or 2%. The overall increase was due to a \$6.1 million increase in medical claims, capitation and other health services expenses and \$1.7 million increase in personnel costs to support continued growth in depth and breadth of our operations offset with a decrease in provider bonus payment of \$6.1 million.

Expenses related to cost of services for the six months ended June 30, 2019 were \$184.8 million, as compared to \$184.3 million for the same period in 2018, an increase of \$0.5 million, or 0%. The overall increase was due to an increase of \$1.7 million in personnel costs to support continued growth in depth and breadth of our operations and an increase in provider bonus of \$0.6 million offset by a \$1.8 million decrease in medical claims, capitation and other health services expense.

General and Administrative Expenses

General and administrative expenses for the three months ended June 30, 2019 were \$11.8 million, as compared to \$10.9 million for the same period in 2018, an increase of \$0.9 million, or 8%. The overall increase is due an increase in professional fees of \$1.6 million and management fees of \$0.9 million related to Alpha Care, offset with to a \$1.6 million decrease in overhead and personnel expense due to the strategic decisions to wind down legacy ApolloMed businesses.

General and administrative expenses for the six months ended June 30, 2019 were \$22.1 million, as compared to \$22.4 million for the same period in 2018, a decrease of \$0.3 million, or 2%. The overall decrease is due to a \$3.0 million decrease in overhead and personnel expense due to the strategic decisions to wind down legacy ApolloMed businesses, \$0.6 million decrease

in share based compensation, offset by an increase in professional fees of \$2.4 million and management fees of \$0.9 million related to Alpha Care.

Depreciation and Amortization

Depreciation and amortization expense for the three and six months ended June 30, 2019 were \$4.5 million and \$8.9 million, respectively, as compared to \$4.9 million and \$10.0 million, respectively, for the same period in 2018. This amount includes depreciation of property and equipment and the amortization of intangible assets from the Merger.

Provision for Doubtful Accounts

For the three and six months ended June 30, 2019 we released reserves related to certain management fees in the amount of \$3.8 million as collectability of the outstanding amount is no longer in doubt. As such our provision for doubtful accounts was a negative \$2.3 million and \$1.4 million for the three and six months ended June 30, 2019, respectively.

Income from Equity Method Investments

Loss from equity method investments for the three months ended June 30, 2019 was \$42,282, as compared to income from equity method investments of \$1.7 million for the same period in 2018, a decrease of \$1.7 million, or 103%. The decrease was primarily due to losses from our investments in LMA's IPA line of business and Accountable Health Care of \$1.3 million and \$3.5 million, respectively, offset with earnings from our investments in UCI, DMG, and PMIOC of \$4.5 million, \$0.2 million, and \$0.1 million, respectively, in the three months ended June 30, 2019 as compared to earnings from our investments in UCI, DMG, PASC, and PMIOC of \$1.7 million, \$0.4 million, \$0.1 million, and \$0.1 million, respectively, offset by losses from our investments in LMA's IPA line of business of \$0.6 million, in the same period in 2018.

Loss from equity method investments for the six months ended June 30, 2019 was \$0.9 million, as compared to income from equity method investments of \$1.6 million for the same period in 2018, a decrease of \$2.5 million, or 154%. The decrease was primarily due to losses from our investments in LMA's IPA line of business and Accountable Health Care of \$2.4 million and \$4.3 million, respectively, in the six months ended June 30, 2019. In addition to the recognition of an impairment loss of \$0.3 million related to our investment in PASC as we do not expect to recover our investment. These losses were offset with earnings from our investments in UCI, DMG, and PMIOC of \$5.5 million, \$0.4 million, and \$0.2 million, respectively. This is compared to earnings from our investments in UCI, DMG, PASC, and PMIOC of \$1.7 million, \$0.7 million, \$0.1 million, and \$0.1 million, respectively, offset by losses from our investments in LMA's IPA line of business of \$1.0 million in the same period in 2018.

Interest Expense

Interest expense for the three and six months ended June 30, 2019 and 2018 were \$0.3 million and \$0.5 million, respectively, and \$0.1 million and \$0.2 million, respectively, and reflects interest on debt obligations associated with bank loans.

Interest Income

Interest income for the three and six months ended June 30, 2019 was \$0.5 million and \$0.8 million, respectively, as compared to \$0.5 million and \$0.8 million, respectively, for the three and six months ended June 30, 2018. Interest income reflects interest earned on cash held in money market accounts and the interest from notes receivable.

Other Income

Other income for the three and six months ended June 30, 2019 was \$24,229 and \$0.2 million, respectively, as compared to \$0.2 million and \$0.3 million, respectively for the same periods in 2018. Other income reflects rental income received.

Income Tax (Benefit) Provision

Income tax expense was \$4.2 million for the three months ended June 30, 2019, as compared to \$1.5 million for the same period in 2018. The increase in tax expense was due to increased income in the three months ended June 30, 2019 period as compared to the same period in 2018, as described above.

Income tax expense was \$2.8 million for the six months ended June 30, 2019, as compared to \$8.8 million for the same period in 2018. The decrease in tax expense was due to lower earnings in the six months ended June 30, 2019 period as compared to the same period in 2018, as described above.

Net Income Attributable to Noncontrolling Interests

Net income attributable to noncontrolling interests was \$7.1 million for the three months ended June 30, 2019 compared to \$5.2 million for the same period in 2018, an increase of \$1.9 million, or 37%. The increase was primarily due to an increase in net income generated from APC mainly attributable to timing of provider costs.

Net income attributable to noncontrolling interests was \$4.5 million for the six months ended June 30, 2019, compared to \$18.8 million for the same period in 2018, a decrease of \$14.3 million, or 76%. This decrease was primarily due to lower net income generated from APC mainly attributable to a reduction in risk pool revenue and dividend paid out.

Liquidity and Capital Resources

Cash, cash equivalents and investment in marketable securities at June 30, 2019 totaled \$53.9 million. Working capital totaled \$89.3 million at June 30, 2019, compared to \$100.8 million at December 31, 2018, a decrease of \$11.5 million, or 11.4%.

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 decreased by \$50.6 million from \$107.6 million at December 31, 2018 to \$57.0 million at June 30, 2019. Cash used in operating activities during the six months ended June 30, 2019 was \$22.0 million. The cash used in operations during the six months ended June 30, 2019 is a function of net income of \$8.2 million, adjusted for the following non-cash operating items: depreciation and amortization of \$8.9 million, share-based compensation of \$0.7 million, and losses from equity method investments of approximately \$0.9 million, offset by a release of provision for doubtful accounts of \$1.4 million and a change in deferred tax liability of \$0.5 million. Our cash provided by operating activities includes a net decrease in operating assets and liabilities of \$38.8 million.

Cash used in investing activities during the six months ended June 30, 2019 was \$50.2 million, due primarily to the acquisition of a business, net of cash, of \$41.5 million, a loan advance of \$6.4 million, funding for an equity method investment of \$2.2 million, and purchases of property and equipment of \$0.4 million, offset with dividends received of \$0.3 million during the six months ended June 30, 2019.

Cash provided by financing activities during the six months ended June 30, 2019 was \$21.6 million primarily due to net borrowings of \$31.6 million and proceeds from exercise of stock options and warrants of \$0.9 million offset by dividend payments of \$10.9 million during the six months ended June 30, 2019.

Credit Facilities

Lines of Credit – Related Party

NMM has a credit facility with Preferred Bank to borrow up to \$20.0 million that matures on June 22, 2020. The credit facility was subsequently amended on September 1, 2018 to temporarily increase the loan availability from \$20.0 million to \$27.0 million for the period from September 1, 2018 through January 31, 2019, further extended to October 31, 2019, pursuant to an amendment entered into March 5, 2019 to facilitate the issuance of an additional standby letter of credit for the benefit of CMS. The amount outstanding as of June 30, 2019 and December 31, 2018 was \$5.0 million and \$13.0 million and is classified as long-term. The interest rate is based on the Wall Street Journal “prime rate” plus 0.125%, or 5.625%, as of June 30, 2019 and December 31, 2018. As of June 30, 2019 and December 31, 2018, availability under this line of credit was \$15.4 million and \$0.7 million, respectively.

NMM has a non-revolving line of credit facility with Preferred Bank, which provides for loan availability of up to \$20.0 million with a maturity date of September 5, 2019. This credit facility was subsequently amended on April 17, 2019 to reduce the loan availability from \$20.0 million to \$16.0 million. The interest rate is based on the Wall Street Journal “prime rate” plus 0.125%, or 5.625% as of June 30, 2019 and December 31, 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 June 30, 2019 and December 31, 2018, availability under this line of credit was \$16.0 million and \$20.0 million, respectively.

APC has a credit facility with Preferred Bank to borrow up to \$10.0 million that matures on June 22, 2020. No amounts have been drawn on this facility. This credit facility was subsequently amended on April 17, 2019 to increase the loan availability from \$10.0 million to \$40.0 million. The interest rate is based on the Wall Street Journal “prime rate” plus 0.125%, or 5.625%, as of June 30, 2019 and December 31, 2018. As of June 30, 2019 and December 31, 2018, availability under this line of credit was \$0.1 million and \$9.7 million, respectively. 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.

Bank Loans

In December 2010, ICC obtained a loan of \$4.6 million from a financial institution. The loan bears interest based on the Wall Street Journal "prime rate", or 5.50% per annum, as of December 31, 2018. The loan is collateralized by the medical equipment ICC owns and guaranteed by one of ICC's shareholders. The loan matured on December 31, 2018 and final payment was made in January 2019. As of December 31, 2018, the balance outstanding was \$40,257 and is classified as current liabilities.

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 the shareholder of record 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 six-month period ended June 30, 2019:

		Six Months Ended June 30, 2019					
Entity	Facility	Interest rate per Annum	Maximum Balance During Period	Ending Balance	Principal Paid During Period	Interest Paid During Period	
AMH	\$ 10,000,000	10%	\$ 5,403,941	\$ 5,403,941	\$ 770,000	\$ —	
ACC	1,000,000	10%	1,288,643	1,283,078	5,565	—	
MMG	3,000,000	10%	3,148,477	3,148,477	—	—	
AKM	5,000,000	10%	—	—	—	—	
SCHC	5,000,000	10%	4,321,481	4,321,481	—	—	
BAHA	250,000	10%	4,065,992	4,065,992	—	—	
	<u>\$ 24,250,000</u>		<u>\$ 18,228,534</u>	<u>\$ 18,222,969</u>	<u>\$ 775,565</u>	<u>\$ —</u>	

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, 2018.

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 June 30, 2019, we had no off-balance sheet arrangements.

Inflation

Inflation and changing prices have had no effect on our continuing operations over our two most recent fiscal years.

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 chief executive officer and chief financial officer concluded that, as of the evaluation date, our disclosure controls and procedures were not 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 chief executive officer and chief financial officer, as appropriate to allow for timely decisions regarding required disclosure.

Our management, including our chief executive officer 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.

Based on management's assessment of our internal control over financial reporting as of June 30, 2019, the following material weakness existed as of that date:

The Company did not maintain effective internal controls over the review of completeness and accuracy of data included in the full risk pool reports provided by an external party based on which material amounts of revenue were recognized. These reports are used to record an adjustment to accrue for additional surplus amounts, which represents a significant estimate of the expected variable consideration to be received upon settlement, primarily as it relates to revenue adjustments. As a result, unless remediated, there is a reasonable possibility that the Company's controls will fail to prevent or detect a misstatement related to full risk pools; and inaccuracies in the full risk pool reports could result in a potential material misstatement if not detected.

Notwithstanding the material weakness discussed above, our management, including our chief executive officer and chief financial officer, concluded that the condensed consolidated financial statements in this Report on Form 10-Q fairly present, in all material respects, the Company's financial condition, results of operations and cash flows for the periods presented, in conformity with U.S. GAAP.

Remediation Plan for Material Weakness in Internal Control over Financial Reporting

We are currently in the process of implementing our remediation plans. To date, we have implemented and are continuing to implement a number of measures to address the material weakness identified. Our management has taken the following actions that materially affect, or are reasonably likely to materially affect, our internal control over financial reporting: The Company continues to design new procedures to test the reliability of the information included in future full risk pool reports prepared for the Company by an external party and expects to implement these procedures during 2019 to remediate this control gap.

Changes in Internal Control Over Financial Reporting

Beginning January 1, 2019, we implemented ASC 842, Leases. Although the new leasing standard did not have a material impact on our results of operations or cash flows, it did have a material impact on our financial position due to the recording of an operating lease right-of-use asset and operating lease liability beginning January 1, 2019. As a result, we implemented changes to our processes related to leases and the control activities within them during the three months ended March 31, 2019. These included

ongoing contract review requirements and gathering of information provided for disclosures, as well as other requirements of the new lease guidance.

There were no other 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.

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, 2018 filed with the SEC on March 18, 2019. 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. We believe there have been no material changes in our risk factors from those disclosed in the Annual Report and those described below. However, 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.

Risks Related to the Proposed APC Transaction.

On May 10, 2019, ApolloMed, AP-AMH and APC entered into a series of interrelated transactions (the "APC Transactions"). Pursuant to the APC Transactions, ApolloMed has agreed to loan \$545,000,000 to AP-AMH (the "AP-AMH Loan"), all of which AP-AMH will use to purchase 1,000,000 shares of Series A Preferred Stock of APC. ApolloMed will acquire the AP-AMH Loan funds by (i) entering into a \$250,000,000 senior secured credit facility from a commercial bank and immediately drawing down \$245,000,000 in cash and (ii) by selling \$300,000,000 shares of ApolloMed common stock to APC in a separate, but interrelated, purchase that will be offset against \$300,000,000 of AP-AMH's purchase price for its APC Series A Preferred Stock. These transactions, if consummated, will expose the Company to numerous additional risk, including without limitation, the following: AP-AMH may never be able to repay the AP-AMH Loan; whether or not AP-AMH repays the loan, ApolloMed will be obligated to pay principal and interest on the \$250,000,000 secured senior credit facility; in connection with the credit facility, the creditor will have a first priority perfected security interest over all of the assets of ApolloMed and its subsidiaries, and such creditor would be able to foreclose on those assets if ApolloMed defaults on its obligations under the credit facility and security agreement; a disconnect arises between APC achieving net income, declaring and paying dividends to AP-AMH, and AP-AMH's payments to ApolloMed, which disconnect could materially impact the Company's financial results and ability to make its required payments on the AP-AMH Loan; APC may be prohibited from paying, or may be unable to pay the dividends on the Series A Preferred Stock, including under the California Corporations Code, which could cause the APC Transactions structure to collapse; regulators could determine that the post-APC Transactions consolidated structure amounts to ApolloMed violating California's corporate practice of medicine doctrine; and ApolloMed may be deemed an investment company, which could impose burdensome compliance requirements on the Company and restrict its future activities. See also "Risk Factors" beginning on page 57 of the Company's definitive proxy statement filed with the SEC on July 31, 2019.

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

During the three months ended June 30, 2019 the Company issued an aggregate of 30,067 shares of common stock and received approximately \$278,447 from the exercise of certain warrants at an exercise price of \$9.00-\$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

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
2.1†	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).
2.2	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).
2.3	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).
2.4	Stock purchase agreement dated March 15, 2019.
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).
10.1	Loan Agreement, dated May 10, 2019, by and between Apollo Medical Holdings, Inc., a Delaware corporation and AP-AMH Medical Corporation, a California professional medical corporation (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 13, 2019).
10.2	Security Agreement by and between Apollo Medical Holdings, Inc., a Delaware corporation and AP-AMH Medical Corporation, a California professional medical corporation (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on May 13, 2019).
10.3	Tradename Licensing Agreement, dated May 10, 2019, by and between Apollo Medical Holdings, Inc., a Delaware corporation and AP-AMH Medical Corporation, a California professional medical corporation (incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on May 13, 2019).
10.4	Administrative Services Agreement, dated May 10, 2019, by and between Network Medical Management, Inc., a California corporation and AP-AMH Medical Corporation, a California professional medical corporation (incorporated herein by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed on May 13, 2019).
10.5	Physician Shareholder Agreement, dated May 10, 2019, by and between Thomas Lam, M.D., Apollo Medical Holdings, Inc., a Delaware corporation, Network Medical Management, Inc., a California corporation, and AP-AMH Medical Corporation, a California professional medical corporation (incorporated herein by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K filed on May 13, 2019).

10.6	Series A Preferred Stock Purchase Agreement, dated May 10, 2019, by and between AP-AMH Medical Corporation, a California professional medical corporation and Allied Physicians of California, a Professional Medical Corporation, a California professional medical corporation (incorporated herein by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K filed on May 13, 2019).
10.7	Special Purpose Shareholder Agreement, dated May 10, 2019, by and between Allied Physicians of California, a Professional Medical Corporation, a California professional medical corporation and AP-AMH Medical Corporation, a California professional medical corporation (incorporated herein by reference to Exhibit 10.7 to the Company's Current Report on Form 8-K filed on May 13, 2019).
10.8	Stock Purchase Agreement, dated May 10, 2019, by and between Allied Physicians of California, a Professional Medical Corporation, a California professional medical corporation and Apollo Medical Holdings, Inc., a Delaware corporation (incorporated herein by reference to Exhibit 10.8 to the Company's Current Report on Form 8-K filed on May 13, 2019).
10.9	Voting and Registration Rights Agreement by and between Allied Physicians of California, a Professional Medical Corporation, a California professional medical corporation and Apollo Medical Holdings, Inc., a Delaware corporation (incorporated herein by reference to Exhibit 10.9 to the Company's Current Report on Form 8-K filed on May 13, 2019).
10.10*	Form of Amendment to Stockholder Lock-up Agreement
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 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: August 9, 2019

By: /s/ Thomas Lam
Thomas Lam
Chief Executive Officer
(Principal Executive Officer)

Dated: August 9, 2019

By: /s/ Eric Chin
Eric Chin
Chief Financial Officer
(Principal Financial Officer)

AMENDMENT TO LOCK-UP AGREEMENT

Reference is made to a certain Lock-Up Agreement dated as of December 6, 2017 (the "Lock-Up Agreement"), between the undersigned shareholder ("Shareholder") and Apollo Medical Holdings, Inc., a Delaware corporation ("Apollo"). Capitalized terms used but not otherwise defined herein shall have the same meanings given to such terms in the Lock-Up Agreement.

For valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Apollo and Shareholder agree that the expiration date of the "First Lock-Up Period" (as defined in the Lock Up Agreement) is hereby extended to and including September 30, 2019. Except as expressly amended above, all of the terms and conditions of the Lock-Up Agreement remain unchanged and in full force and effect.

AGREED:

"Apollo" "Shareholder"

By: _____

Mitchell Kitayama
Lead Independent Committee Director

By:

Eric Chin
Chief Financial Officer

**Certification of 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**

I, Thomas S. Lam, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Apollo Medical Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2019

/s/ Thomas S. Lam

Thomas S. Lam
Chief Executive Officer

**Certification of 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**

I, Eric Chin, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Apollo Medical Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2019

/s/ Eric Chin

Eric Chin
Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

We, the undersigned duly elected and acting Chief Executive Officer and Chief Financial Officer of Apollo Medical Holdings, Inc. (the "Company"), hereby certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Quarterly Report on Form 10-Q of the Company for the period ended March 31, 2019 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 9, 2019

/s/ Thomas S. Lam

Thomas S. Lam
Chief Executive Officer

Date: August 9, 2019

/s/ Eric Chin

Eric Chin
Chief Financial Officer

The foregoing certification is being furnished to the Securities and Exchange Commission pursuant to § 18 U.S.C. Section 1350. It is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.