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 **September 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	**95-4472349**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

1668 S. Garfield Avenue, 2nd Floor, Alhambra, California 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 Stock, $0.001 par value per share	AMEH	Nasdaq Capital Market

As of November 4, 2019, there were 34,892,506 shares of common stock of the registrant, $0.001 par value per share, issued and outstanding

APOLLO MEDICAL HOLDINGS, INC.

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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.

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2019	December 31, 2018
Assets		
Current assets		
Cash and cash equivalents	$ 230,298,252	$ 106,891,503
Restricted cash	20,150	—
Investment in marketable securities	1,154,480	1,127,102
Receivables, net	19,731,189	7,127,217
Receivables, net – related parties	37,708,178	49,328,739
Other receivables	15,527,520	1,003,133
Prepaid expenses and other current assets	10,495,938	7,385,098
Loans receivable - related parties	6,425,000	—
Total current assets	321,360,707	172,862,792
Noncurrent assets		
Land, property and equipment, net	12,427,107	12,721,082
Intangible assets, net	114,166,305	86,875,883
Goodwill	237,134,772	185,805,880
Loans receivable – related parties, net of current portion	12,500,000	17,500,000
Investment in other entities – equity method	35,840,105	34,876,980
Investment in a privately held entity that does not report net asset value per share	896,000	405,000
Restricted cash	746,104	745,470
Right-of-use assets	13,540,129	—
Other assets	1,633,153	1,205,962
Total noncurrent assets	428,883,675	340,136,257
Total assets	$ 750,244,382	$ 512,999,049
Liabilities, Mezzanine Equity and Stockholders' Equity		
Current liabilities		
Accounts payable and accrued expenses	$ 35,539,917	$ 25,075,489
Fiduciary accounts payable	1,734,142	1,538,598
Medical liabilities	53,819,647	33,641,701
Income taxes payable	1,392,492	11,621,861
Bank loan	—	40,257
Dividend payable	271,279	—
Finance lease liabilities	101,741	101,741

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

	September 30, 2019	December 31, 2018
Operating lease liabilities	2,836,010	—
Current portion of long term debt	9,500,000	
Total current liabilities	105,195,228	72,019,647
Noncurrent liabilities		
Lines of credit – related party	—	13,000,000
Deferred tax liability	30,199,423	19,615,935
Liability for unissued equity shares	1,185,025	1,185,025
Finance lease liabilities	441,241	517,261
Operating lease liabilities	10,670,364	—
Long-term debt, net of current portion and deferred financing costs	234,149,063	—
Total noncurrent liabilities	276,645,116	34,318,221
Total liabilities	381,840,344	106,337,868
Commitments and Contingencies (Note 11)		
Mezzanine equity		
Noncontrolling interest in Allied Physicians of California, a Professional Medical Corporation (“APC”)	176,230,074	225,117,029
Stockholders’ equity		
Series A Preferred stock, $0.001 par value; 5,000,000 shares authorized (inclusive of all preferred stock, including Series B Preferred stock); 1,111,111 issued and zero outstanding at September 30, 2019 and December 31, 2018, respectively	—	—
Series B Preferred stock, $0.001 par value; 5,000,000 shares authorized (inclusive of all preferred stock, including Series A Preferred stock); 555,555 issued and zero outstanding at September 30, 2019 and December 31, 2018, respectively	—	—
Common stock, $0.001 par value; 100,000,000 shares authorized, 34,822,933 and 34,578,040 shares outstanding, excluding 16,959,069 and 1,850,603 treasury shares, at September 30, 2019 and December 31, 2018, respectively	34,823	34,578
Additional paid-in capital	165,521,888	162,723,051
Retained earnings	25,177,257	17,788,203
	190,733,968	180,545,832
Noncontrolling interest	1,439,996	998,320
Total stockholders’ equity	192,173,964	181,544,152
Total liabilities, mezzanine equity and stockholders’ equity	$ 750,244,382	$ 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 September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenue				
Capitation, net	$ 130,807,706	$ 90,612,720	$ 305,548,176	$ 266,834,186
Risk pool settlements and incentives	11,355,069	57,788,932	32,639,960	89,641,885
Management fee income	8,517,586	12,851,178	27,866,805	37,297,358
Fee-for-service, net	4,099,660	4,723,809	12,058,762	15,524,149
Other income	1,280,203	752,642	3,753,258	4,021,480
Total revenue	156,060,224	166,729,281	381,866,961	413,319,058
Operating expenses				
Cost of services	131,129,813	96,268,804	315,925,388	280,589,061
General and administrative expenses	7,949,814	9,040,336	30,031,329	31,481,810
Depreciation and amortization	4,920,429	4,843,037	13,792,581	14,819,627
Provision for doubtful accounts	—	—	(1,363,415)	—
Impairment of intangibles	1,994,000	—	1,994,000	—
Total expenses	145,994,056	110,152,177	360,379,883	326,890,498
Income from operations	10,066,168	56,577,104	21,487,078	86,428,560
Other income (expense)				
Income (loss) from equity method investments	2,053,730	(4,215,056)	1,161,791	(2,573,219)
Interest expense	(827,905)	(178,318)	(1,349,933)	(374,002)
Interest income	508,856	418,449	1,305,528	1,180,990
Other income	2,620,485	609,203	2,831,830	884,948
Total other income (expense), net	4,355,166	(3,365,722)	3,949,216	(881,283)
Income before provision for income taxes	14,421,334	53,211,382	25,436,294	85,547,277
Provision for income taxes	3,682,472	14,585,942	6,483,630	23,338,589
Net income	10,738,862	38,625,440	18,952,664	62,208,688
Net income attributable to noncontrolling interests	7,034,688	29,519,043	11,563,610	48,277,734
Net income attributable to Apollo Medical Holdings, Inc.	$ 3,704,174	$ 9,106,397	$ 7,389,054	$ 13,930,954
Earnings per share – basic	$ 0.11	$ 0.28	$ 0.21	$ 0.43
Earnings per share – diluted	$ 0.10	$ 0.24	$ 0.20	$ 0.37
Weighted average shares of common stock outstanding – basic	34,643,754	32,917,007	34,555,124	32,672,793
Weighted average shares of common stock outstanding – diluted	37,792,266	38,387,700	37,816,698	38,010,838

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	Common Stock Outstanding					
	Noncontrolling Interest	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Noncontrolling Interest	Shareholders' Equity
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
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
Net income	6,284,627	—	—	—	3,704,174	750,061	4,454,235
Shares issued for exercise of options and warrants	—	184,121	184	1,502,044	—	—	1,502,228
Share-based compensation	202,382	—	—	128,001	—	—	128,001
Stock subscription	549,998	—	—	—	—	—	—
Stock issued in connection with acquisition of a business	414,250	—	—	—	—	—	—
Costs related to issuance of preferred shares	(803,695)	—	—	—	—	—	—
Dividends	(50,000,000)	—	—	—	—	—	—
Balance at September 30, 2019	$ 176,230,074	34,822,933	$ 34,823	$ 165,521,888	$ 25,177,257	$ 1,439,996	$ 192,173,964

	Mezzanine Equity – Noncontrolling Interest in APC	Common Stock Outstanding					
	Noncontrolling Interest	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Noncontrolling Interest	Shareholders' Equity
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
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
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
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
Net income	29,030,555	—	—	—	9,106,397	488,488	9,594,885
Shares issued for exercise of options and warrants	—	184,019	184	1,226,532	—	—	1,226,716
Share-based compensation	202,383	—	—	—	—	—	—
Acquisition of additional shares in consolidated equity	—	—	—	(443,384)		443,184	(200)
Purchase of treasury shares	—	—	—	—	432,112	—	432,112
Dividends	—	—	—	—	—	(942,000)	(942,000)
Balance at September 30, 2018	$ 225,147,257	33,025,189	$ 33,025	$ 162,810,695	$ 17,100,065	$ 5,182,884	$ 185,126,669

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

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

	Nine Months Ended September 30,	
	2019	2018
Cash flows from operating activities		
Net income	$ 18,952,664	$ 62,208,688
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	13,792,581	14,819,627
Impairment of intangible	1,994,000	—
Loss on disposal of property and equipment	—	41,782
Provision for doubtful accounts	(1,363,415)	—
Share-based compensation	1,005,898	1,238,708
Gain on loan assumption	(2,250,000)	—
Unrealized (gain) loss from investment in equity securities	(6,283)	10,218
(Income) loss from equity method investments	(1,161,791)	2,573,219
Deferred tax	(185,699)	7,135,408
Changes in operating assets and liabilities, net of business combinations:		
Receivable, net	1,905,076	4,484,115
Receivable, net – related parties	5,864,052	(43,360,966)
Other receivables	(13,719,229)	—
Prepaid expenses and other current assets	(2,913,570)	(80,618)
Right-of-use assets	1,877,353	—
Other assets	(524,689)	(26,931)
Accounts payable and accrued expenses	4,868,437	31,701,367
Dividends payable	—	—
Incentives payable	—	(16,500,000)
Fiduciary accounts payable	195,544	—
Medical liabilities	(6,226,426)	(30,466,895)
Income taxes payable	(10,229,369)	(1,912,842)
Operating lease liabilities	(1,790,313)	—
Net cash provided by operating activities	10,084,821	31,864,880
Cash flows from investing activities		
Payments for business acquisitions, net of cash acquired	(49,402,514)	—
Advances on loans receivable	(7,425,000)	(2,500,000)
Purchases of marketable securities	(21,095)	(9,013)
Purchases of investment - equity method	(2,949,000)	(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	(806,590)	(867,732)
Dividend received	240,000	207,410
Net cash used in investing activities	(60,364,199)	(20,248,175)
Cash flows from financing activities		
Repayment of bank loan and lines of credit	(52,640,257)	(375,485)
Dividends paid	(60,670,309)	(16,725,799)

Change in noncontrolling interest capital	—	27,300
Payment of capital lease obligations	(76,020)	(73,775)
Proceeds from the exercise of stock options and warrants	2,400,330	3,574,046
Repurchase of shares	(40,000)	—
Borrowings on line of credit and long-term debt	289,600,000	8,000,000
Proceeds from common stock offering	754,998	200,000
Cost of debt and equity issuance costs	(5,621,831)	—
Net cash provided by (used in) financing activities	173,706,911	(5,373,713)
Net increase in cash, cash equivalents and restricted cash	123,427,533	6,242,992
Cash, cash equivalents and restricted cash, beginning of period	107,636,973	118,500,095
Cash, cash equivalents and restricted cash, end of period	$ 231,064,506	$ 124,743,087
Supplementary disclosures of cash flow information:		
Cash paid for income taxes	$ 17,900,000	$ 18,032,590
Cash paid for interest	999,582	287,332
Supplemental disclosures of non-cash investing and financing activities		
Cashless exercise of stock options	$ —	$ 47
Deferred tax liability adjustment to goodwill	$ 11,539,600	$ 1,110,456
Dividend declared included in dividend payable	$ 271,279	$ —
APC stock issued in exchange for AMG	$ 414,250	$ —

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.

	Nine Months Ended September 30,	
	2019	**2018**
Cash and cash equivalents	$ 230,298,252	$ 119,779,499
Restricted cash – short-term - distributions to former NMM shareholders	20,150	4,218,176
Restricted cash – letters of credit	746,104	745,412
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	$ 231,064,506	$ 124,743,087

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.

On September 11, 2019, ApolloMed completed a series of agreements with two of its affiliates, AP-AMH and APC as follows;

1. The Company loaned AP-AMH $545.0 million pursuant to a ten-year secured loan agreement. The loan bears interest at a rate of 10% per annum simple interest, is not prepayable (except in certain limited circumstances), requires quarterly payments of interest only in arrears, and is 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 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 purchased 1,000,000 shares of APC Series A Preferred Stock for aggregate consideration of $545.0 million in a private placement. Under the terms of the APC Certificate of Determination of Preferences of Series A Preferred Stock (the "Certificate of Determination"), AP-AMH is entitled to receive preferential, cumulative dividends that accrue on a daily basis and that are equal to the sum of (i) APC's net income from Healthcare Services (as defined in the Certificate of Determination), plus (ii) any dividends received by APC from certain of APC's affiliated entities, less (iii) any Retained Amounts (as defined in the Certificate of Determination).

3. APC purchased 15,015,015 shares of the Company's common stock for total consideration of$300.0 million in private placement. In connection therewith, the Company granted APC certain registration rights with respect to the Company's common stock that APC purchased, and APC agreed that APC votes in excess of 9.99% of the Company's then outstanding shares will be voted by proxy given to the Company's management, and that those proxy holders will cast the excess votes in the same proportion as all other votes cast on any specific proposal coming before the Company's stockholders.

4. The Company licensed to AP-AMH the right to use certain tradenames for certain specified purposes 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, NMM, the Company 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.

As of a result of the transaction, APC's ownership in ApolloMed increased to32.54% at September 30, 2019 from 4.82% at December 31, 2018.

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 to43.43% 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 Co-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”), Alpha Care Medical Group, Inc. (“Alpha Care”), Accountable Health Care IPA, a Professional Medical Corporation ("Accountable Health Care"), and AMG, a Professional Medical Corporation ("AMG").

Alpha Care, an IPA which the Company acquired on May 31, 2019, 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 170,000 enrollees, as of September 30, 2019, and focuses on Medi-Cal/Medicaid, Commercial, and Medicare and Dual Eligible members in the Riverside and San Bernardino counties of Southern California.

Accountable Health Care is a California based IPA 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 Health Care currently has a network of over 400 primary care physicians and 700 specialty care physicians, and five community and regional hospital medical centers that provide quality health care services to more than 89,000 members of three federally qualified health plans and multiple product lines, including Medi-Cal, Commercial, Medicare and the California Healthy Families program. On August 30, 2019, APC and APC-LSMA, acquired the remaining outstanding shares of capital stock (comprising 75%) and as such as of September 30, 2019, Accountable Health Care is 100% owned (see Note 3 and Note 5).

AMG is a network of family practice clinics operating out of three main locations in Southern California. AMG provides professional and post-acute care services to Medicare, Medi-Cal/Medicaid, and Commercial patients through its networks of doctors and nurse practitioners. On September 10, 2019, APC-LSMA, a holding company of APC, agreed to purchase and acquire 100% of the aggregate issued and outstanding shares of capital stock of AMG for $1.2 million in cash and $0.4 million of APC common stock (see Note 3).

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 Co-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 rights to receive benefits from the operations of AP-AMH and has the option, but not the obligation, to cover losses. Therefore, AP-AMH is controlled and consolidated by ApolloMed as the primary beneficiary of this VIE.

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 September 30, 2019 and for the three and nine months ended September 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. Operating results for the three and nine months ended September 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 September 30, 2019 and December 31, 2018, and the condensed consolidated statements of income for the three and nine months ended September 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 consolidated VIE, APC; APC's subsidiary, UCAP; and APC's consolidated VIEs, CDSC, APC-LSMA, ICC, and Alpha Care. Effective on September 1, 2019, the condensed consolidated balance sheets as of September 30, 2019 and the condensed consolidated statements of income for the three and nine months ended September 30, 2019, also include the accounts of Accountable Health 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 ("ROU") 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 September 30, 2019, the Company's deposit accounts with banks exceeded the FDIC's insured limit by approximately $248.7 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 September 30, 2019 and December 31, 2018, short-term marketable securities in the amount of approximately $1.2 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, management fee income and incentive receivables, 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, 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 nine months ended September 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 analyzes the ultimate collectability of accounts receivable after certain stages of the collection cycle using a look-back analysis to determine the amount of receivables subsequently collected and adjustments are recorded when necessary. Reserves are recorded primarily on a specific identification basis.

Receivables are recorded 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 September 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 nine months ended September 30, 2019 and 2018:

Three Months Ended September 30,	**2019**	**2018**
Commercial	$ 25,429,304	$ 28,463,636
Medicare	60,737,135	79,117,660
Medicaid	61,189,161	47,318,190
Other third parties	8,704,624	11,829,795
Revenue	$ 156,060,224	$ 166,729,281

Nine Months Ended September 30,	**2019**	**2018**
Commercial	$ 75,883,004	$ 83,830,517
Medicare	155,729,758	186,449,517
Medicaid	122,836,562	109,870,854
Other third parties	27,417,637	33,168,170
Revenue	$ 381,866,961	$ 413,319,058

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

	For the Three Months Ended September 30,	
	2019	2018
Payor A	12.0 %	14.8 %
Payor B	11.7 %	18.4 %
Payor C	*	12.7 %
Payor D	12.0 %	16.7 %
Payor E	19.9 %	*

	For the Nine Months Ended September 30,	
	2019	2018
Payor A	14.3 %	13.4 %
Payor B	13.3 %	16.9 %
Payor C	10.0 %	13.1 %
Payor D	*	15.6 %
Payor E	11.0 %	*

* Less than 10% of total net revenues

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

	As of September 30, 2019	As of December 31, 2018
Payor E	18.1 %	*
Payor F	28.0 %	34.1 %
Payor G	29.1 %	42.2 %

* Less than 10% of total receivables and receivables - related parties, net

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, and long-term debt. 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, capital lease obligations and long term debt 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 ofSeptember 30, 2019 are presented below:

	Fair Value Measurements			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Money market funds*	$ 194,428,575	$ —	$ —	$ 194,428,575
Marketable securities – certificates of deposit	1,087,197	—	—	1,087,197
Marketable securities – equity securities	67,283	—	—	67,283
Total	$ 195,583,055	$ —	$ —	$ 195,583,055

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

	Fair Value Measurements			
	Level 1	**Level 2**	**Level 3**	**Total**
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 2 or Level 3 inputs measured on a recurring basis for the nine months ended September 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 three andnine months ended September 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 thenine months ended September 30, 2019 and 2018.

Goodwill and Indefinite-Lived Intangible Assets

Under 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) IPAs, and (3) ACOs. 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 had no impairment of its goodwill or definite-lived intangible assets during the nine months ended September 30, 2019 and 2018. However, during the three months ended September 30, 2019, the Company wrote off indefinite-lived intangible assets of $2.0 million related to Medicare licenses it acquired as part of the Merger. The Company will no longer utilize the licenses and as such will not receive future economic benefits.

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. On March 31, 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, including Alpha Care and Accountable Health Care, APAACO and MMG are responsible for integrated care that the associated physicians and contracted hospitals provide to its enrollees. APC, including Alpha Care and Accountable Health Care, 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"), 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 and Accountable Health Care enter into full risk capitation arrangements with certain health plans and local hospitals, which are administered by a third party, where the hospital is responsible for providing, arranging and paying for institutional risk and APC and Accountable Health Care are responsible for providing, arranging and paying for professional risk. Under a full risk pool sharing agreement, APC and Accountable Health Care generally receive 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 enrollees' 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. Final settlement of risk pools for a given contract year generally occur 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 HMOs' 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 oftwo performance years through December 31, 2018, which has been extended for anothertwo 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 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. Excess over claims paid plus an estimate for the related IBNR (see Note 8) and 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 within30 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 likely be recognized 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 received by the Company for performance year 2019 was approximately $8.3 million per month for the period beginning April 1, 2019 through August 30, 2019. Subsequently, CMS adjusted the AIPBP payments to approximately $3.7 million for the period starting September 1, 2019 based on CMS' updated estimate of total claims to be incurred. The Company has received approximately $45.0 million in total AIPBP payments for the nine months ended September 30, 2019 of which $36.5 million has been recognized as revenue. The Company also recorded assets of approximately $11.4 million related to recoverable claims paid during thenine months ended September 30, 2019 which will be administered following instructions from CMS and $3.0 million related to final settlement of the 2017 performance year. These balances are 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 Management Services Agreement ("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-Services 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 together 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 no 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 $17.0 million and $9.1 million as of September 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 nine months ended September 30, 2019, $0.5 million of the Company's contract liability accrued in 2018 has been recognized as revenue.

Leases

On January 1, 2019, the Company adopted 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 "Operating lease liabilities" in the accompanying condensed consolidated balance sheets. Finance leases are included in "Land, property and equipment, net" and "Finance lease liabilities" 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 the Company's leases provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at commencement date in determining the present value of future payments. The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that it 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 period of the awards, adjusted for expected forfeitures. From time to time, 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 time-based and performance-based vesting schedules.

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 condensed 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 was not probable that the shares would become redeemable as of September 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 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 $9.0 million and lease liabilities of $8.9 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

Alpha Care Medical Group

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 deposited $2.0 million into an escrow account for potential post-closing adjustments. As of September 30, 2019 no post-closing adjustment is expected to be paid to Dr. Tyson and the full amount of the escrow account is expected to be returned to the Company. As such, the escrow amount is presented within Prepaid expenses and other current assets in the accompanying 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	2,004,649
Network relationship intangible assets	29,858,000
Goodwill	24,637,507
Accounts Payable	(2,273,753)
Deferred tax liabilities	(8,355,343)
Medical liabilities	(14,719,714)
Net assets acquired	$ 45,055,564
Cash paid	$ 45,055,564

Accountable Health Care, IPA

On August 30, 2019, APC and APC-LSMA, acquired the remaining outstanding shares of capital stock (comprising 75%) in Accountable Health Care in exchange for $7.3 million. In addition to the payment of $7.3 million APC assumed all assets and liabilities of Accountable Health Care, including loans payable to NMM and APC of $15.4 million, which has been eliminated upon consolidation and contributed the 25% investment totaling $2.4 million, total purchase price was $25.1 million (see Note 5).

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	$	581,965
Accounts receivable, net		5,150,060
Other current assets		198,056
Network relationship intangible assets		11,411,000
Goodwill		25,604,917
Accounts Payable		(2,993,325)
Deferred tax liabilities		(3,193,209)
Medical liabilities		(11,684,658)
Subordinated Loan		(15,408,138)
Net asset acquired	$	9,666,668
Equity investment contributed	$	2,416,668
Cash paid	$	7,250,000

The Company also completed one additional acquisition on September 10, 2019 for total consideration of$1.7 million, of which $0.4 million was in the form of APC common stock. The business combination did not meet the quantitative thresholds to require separate disclosures based on the Company's consolidated net assets, investments and net income.

The acquisitions were 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 were 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 thenine months ended September 30, 2019 is as follows;

Balance, January 1, 2019	$	185,805,880
Acquisition of Alpha Care		24,637,507
Acquisition of AMG		1,086,468
Acquisition of Accountable Health Care		25,604,917
Balance, September 30, 2019	$	237,134,772

4. Intangible Assets, Net

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

	Useful Life (Years)	Gross September 30, 2019	Accumulated Amortization	Net September 30, 2019
Indefinite lived assets:				
Medicare license	N/A	$ —	$ —	$ —
Amortized intangible assets:				
Network relationships	11-15	151,152,000	(57,503,773)	93,648,227
Management contracts	15	22,832,000	(9,146,391)	13,685,609
Member relationships	12	6,696,000	(2,086,523)	4,609,477
Patient management platform	5	2,060,000	(755,333)	1,304,667
Tradename/trademarks	20	1,011,000	(92,675)	918,325
		$ 183,751,000	$ (69,584,695)	$ 114,166,305

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	15	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
		$ 144,476,000	$ (57,600,117)	$ 86,875,883

Included in depreciation and amortization on the accompanying condensed consolidated statements of income is amortization expense of$4.3 million and $4.2 million (excluding $0.1 million of amortization expense for exclusivity incentives) for the three months endedSeptember 30, 2019 and 2018, respectively, and $12.0 million and $12.8 million (excluding $0.3 million of amortization expense for exclusivity incentives) for the nine months ended September 30, 2019 and 2018, respectively.

During the three and nine months ended September 30, 2019, the Company wrote off indefinite-lived intangible assets of$2.0 million related to Medicare licenses it acquired as part of the Merger. The Company will no longer utilize these licenses and as such the Company will not receive future economic benefits.

Future amortization expense is estimated to be as follows for the following years endingDecember 31:

	Amount
2019 (excluding the nine months ended September 30, 2019)	$ 4,212,000
2020	15,757,000
2021	14,436,000
2022	13,559,000
2023	12,341,000
Thereafter	53,861,000
Total	$ 114,166,000

5. Investments in Other Entities - Equity Method

Equity Method Investment Summary

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

	September 30, 2019	December 31, 2018
LaSalle Medical Associates – IPA Line of Business	$ 6,426,903	$ 7,054,888
Pacific Medical Imaging & Oncology Center, Inc.	1,542,506	1,359,494
Universal Care, Inc.	8,794,659	2,635,945
Accountable Health Care - related party	—	4,977,957
Diagnostic Medical Group	2,714,008	2,257,346
Pacific Ambulatory Surgery Center, LLC	—	285,198
531 W. College, LLC – related party	16,139,073	16,273,152
MWN, LLC – related party	222,956	33,000
	$ 35,840,105	$ 34,876,980

LaSalle Medical Associates - IPA Line of Business

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 is also an IPA of independently contracted doctors, hospitals and clinics, delivering high quality care to more than 319,000 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 September 30, 2019 and 2018, APC recorded losses and income from this investment of $0.4 million and $0.2 million, respectively, in the accompanying condensed consolidated statements of income. For the nine months ended September 30, 2019 and 2018, APC recorded losses from this investment of $2.8 million and $0.8 million, respectively, in the accompanying condensed consolidated statements of income. During the period ended September 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 $6.4 million and $7.1 million at September 30, 2019 and December 31, 2018, respectively.

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

Balance Sheets

	September 30, 2019	December 31, 2018
Assets		
Cash and cash equivalents	$ 3,237,833	$ 18,444,702
Receivables, net	7,778,735	2,897,337
Other current assets	3,526,319	5,459,442
Loan receivable	2,250,000	1,250,000
Restricted cash	680,216	667,414
Total assets	$ 17,473,103	$ 28,718,895

Liabilities and Stockholders' (Deficit) Equity

	September 30, 2019	December 31, 2018
Current liabilities	$ 22,953,961	$ 26,837,814
Stockholders' (deficit) equity	(5,480,858)	1,881,081
Total liabilities and stockholders' (deficit) equity	$ 17,473,103	$ 28,718,895

Statements of Operations

	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Revenues	$ 144,569,818	$ 177,696,760
Expenses	155,581,757	180,445,655
Net loss	$ (11,011,939)	$ (2,748,895)

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 $0.7 million and $0.7 million, for the three months ended September 30, 2019 and 2018, respectively, and fees of approximately $2.1 million and $1.9 million for the nine months ended September 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 September 30, 2019 and 2018, APC recorded income from this investment of approximately$31,230 and $4,990, respectively, in the accompanying condensed consolidated statements of income. For the nine months ended September 30, 2019 and 2018, APC recorded income from this investment of$0.2 million and $41,571, 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 September 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 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 September 30, 2019 and 2018, the Company recorded income and losses from this investment of approximately $0.6 million and $4.6 million, respectively, in the accompanying condensed consolidated statements of income. During the nine months ended September 30, 2019 and 2018, the Company recorded income and losses from this investment of approximately$6.2 million and $2.9 million, respectively, in the accompanying condensed consolidated statements of income. The accompanying condensed consolidated balance sheets include the related investment balances of $8.8 million and $2.6 million at September 30, 2019 and December 31, 2018, respectively.

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

Balance Sheets

	September 30, 2019	December 31, 2018
Assets		
Cash	$ 29,568,915	$ 27,812,520
Receivables, net	62,787,671	46,978,703
Other current assets	33,786,968	18,670,350
Other assets	10,799,827	661,621
Property and equipment, net	3,319,680	2,786,996
Total assets	$ 140,263,061	$ 96,910,190

Liabilities and Stockholders' Deficit

	September 30, 2019	December 31, 2018
Current liabilities	$ 120,698,226	$ 89,731,133
Other liabilities	25,067,577	25,024,043
Stockholders' deficit	(5,502,742)	(17,844,986)
Total liabilities and stockholders' deficit	$ 140,263,061	$ 96,910,190

Statements of Income

	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Revenues	$ 372,181,425	$ 240,633,955
Expenses	370,597,312	246,765,335
Income before benefit from income taxes	1,584,113	(6,131,380)
Benefit from income taxes	(11,010,394)	(130,023)
Net income (loss)	$ 12,594,507	$ (6,001,357)

Accountable Health Care – Related Party

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 Health Care currently has a network of over 400 primary and 700 specialty care physicians, and five community and regional hospital medical centers that provide quality health care services to more than 89,000 members of three 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 Health Care under the equity method of accounting. On August 30, 2019 APC and APC-LSMA, in connection with the settlement of a dispute with Dr. Jayatilaka, acquired the remaining outstanding shares of capital stock (comprising 75%) in Accountable Health

Care in exchange for $7.3 million. In addition to the payment of $7.3 million APC assumed all liabilities and assets of Accountable Health Care (See Note 3).

The Company recognized a gain of approximately $1.8 million as a result of the transaction , which represented the difference between the fair value of the 25% ownership held and the Company's basis at the time of acquisition. Such gain is included in income from equity method investment in the accompanying condensed consolidated statements of income.

Effective September 1, 2019, Accountable Health Care's financial result is included in the condensed consolidated balance sheets as of September 30, 2019 and the condensed consolidated statements of income for the three and nine months ended September 30, 2019.

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 September 30, 2019 and 2018, APC recorded income from this investment of $0.3 million and $0.2 million, respectively, in the condensed consolidated statements of income. For the nine months ended September 30, 2019 and 2018, APC recorded income from this investment of $0.7 million and $0.9 million, respectively, in the condensed consolidated statements of income. During the nine months ended September 30, 2019 the Company received dividends from its investment in DMG of $0.2 million. The accompanying condensed consolidated balance sheets include the related investment balances of $2.7 million and $2.3 million as of September 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 nine months ended September 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 nine months ended September 30, 2018, APC recorded income from this investment of $0.1 million and $0.3 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.

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 $16.1 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 September 30, 2019 and December 31, 2018.

For the three and nine months ended September 30, 2019, APC recorded losses from its investment in 531 W. College LLC of $0.1 million, respectively, in the accompanying condensed consolidated statements of income. The accompanying condensed consolidated balance sheets include the related investment balance of $16.1 million and $16.3 million, respectively, related to APC's investment at September 30, 2019 and APC's and NMM's investments at December 31, 2018.

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

Balance Sheet

	September 30, 2019	December 31, 2018
Assets		
Cash	$ 31,986	$ 158,088
Other current assets	24,750	16,137
Other assets	70,000	70,000
Property and equipment, net	$ 33,412,652	$ 33,394,792
Total assets	$ 33,539,388	$ 33,639,017
Liabilities and Members' Equity		
Current liabilities	$ 1,261,243	$ 1,007,413
Stockholders' equity	32,278,145	32,631,604
Total liabilities and members' equity	$ 33,539,388	$ 33,639,017

Statements of Operation

	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Revenues	—	—
Expenses	779,958	181,359
Loss from operations	(779,958)	(181,359)
Other Income	$ 426,500	$ 25,650
Net loss	$ (353,458)	$ (155,709)

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 nine months ended September 30, 2019, NMM invested an additional $0.3 million for working capital purposes. For the three and nine months ended September 30, 2019, APC recorded losses from its investment in MWN LLC of $0.1 million, respectively, in the accompanying condensed consolidated statements of income. The accompanying condensed consolidated balance sheets include the related investment balance of $0.2 million and $33,000 as of September 30, 2019 and December 31, 2018, respectively.

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

MediPortal, LLC

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 will grant APC upon completion of its health portal. As of September 30, 2019, the health portal has not been completed. 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.

AchievaMed

On July 1, 2019, NMM and AchievaMed, Inc. a California corporation ("AchievaMed") entered into an agreement in which NMM would purchase 50% of the aggregate shares of capital stock of AchievaMed over a period of time not to exceed five years. As a result of this transaction NMM invested $0.5 million for a 10% interest. The related investment balance of $0.5 million is included in "Investment in a privately held entity that does not report net asset value per share" in the accompanying condensed consolidated balance sheet as of September 30, 2019.

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% (6.00% as of September 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 $6.4 million as of September 30, 2019.

Accountable Health Care IPA

On August 30, 2019, APC and APC-LSMA acquired the remaining outstanding shares of capital stock (comprising 75%) in Accountable Health Care in exchange for $7.3 million. In addition to the payment of $7.3 million APC assumed all assets and liabilities of Accountable Health Care, these liabilities include the loan payable due to NMM of $5.0 million and the remaining loan receivable of $7.3 million originally to be paid to George M. Jayatilaka, M.D.. As a result of the net loans assumed, APC recognized a gain of $2.3 million recorded in other income in the accompanying condensed consolidated statements of income. All loan payables and receivables has been eliminated upon consolidation. (See Note 3)

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 1.00%, or 6.00%, as of September 30, 2019 and 6.50% as of 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 September 30, 2019 and December 31, 2018.

7. Accounts Payable and Accrued Expenses

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

	September 30, 2019	December 31, 2018
Accounts payable	$ 4,353,117	$ 4,481,544
Capitation payable	2,603,636	300,000
Subcontractor IPA risk pool payable	3,171,030	2,532,750
Professional fees	3,523,226	2,251,741
Due to related parties	482,552	1,488,313
Accrued compensation	4,427,951	4,996,906
Contract liabilities	16,978,405	9,024,235
	$ 35,539,917	$ 25,075,489

8. Medical Liabilities

The Company’s medical liabilities consisted of the following:

	September 30, 2019	December 31, 2018
Balance, beginning of period	$ 33,641,701	$ 63,972,318
Acquired (see Note 3)	26,404,372	—
Claims paid for previous period	(49,164,084)	(36,549,348)
Incurred health care costs	178,472,645	209,002,961
Claims paid for current period	(135,580,214)	(167,537,480)
Payment to CMS based on APAACO 2017 year settlement	—	(34,464,826)
Adjustments	45,227	(781,924)
Balance, end of period	$ 53,819,647	$ 33,641,701

9. Credit Facility, Bank Loan and Lines of Credit

Credit Facility

The Company's credit facility consisted of the following:

	September 30, 2019
Term loan A	$ 190,000,000
Revolver loan	60,000,000
Total debt	250,000,000
Less: Current portion of debt	(9,500,000)
Less: Unamortized financing costs	(6,350,937)
Long-term debt	$ 234,149,063

The following table presents scheduled maturities of the Company's credit facility as of September 30, 2019:

	Amount
2019 (excluding the nine months ended September 30, 2019)	$ 2,375,000
2020	9,500,000
2021	10,687,500
2022	14,250,000
2023	15,437,500
Thereafter	197,750,000
Total	$ 250,000,000

Credit Agreement

On September 11, 2019, the Company entered into a secured credit agreement (the "Credit Agreement") with SunTrust Bank, in its capacity as administrative agent for the lenders (in such capacity, the "Agent"), as a lender, an issuer of letters of credit and as swingline lender, and Preferred Bank, JPMorgan Chase Bank, N.A., MUFG Union Bank, N.A., Royal Bank of Canada, Fifth Third Bank and City National Bank, as lenders (the "Lenders"). In connection with the closing of the Credit Agreement, the Company, its subsidiary, NMM, and the Agent entered into a Guaranty and Security Agreement (the "Guaranty and Security Agreement"), pursuant to which, among other things, NMM guaranteed the obligations of the Company under the Credit Agreement.

The Credit Agreement provides for a five-year revolving credit facility to the Company of $100.0 million ("Revolver Loan"), which includes a letter of credit subfacility of up to $25.0 million. The Credit Agreement also provides for a term loan of $190.0 million, ("Term Loan A"). The unpaid principal amount of the term loan is payable in quarterly installments on the last day of each fiscal quarter commencing on December 31, 2019. The principal payment for each of the first eight fiscal quarters is $2.4 million, for the following eight fiscal quarters thereafter is $3.6 million and for the following three fiscal quarters thereafter is $4.8 million. The remaining principal payment on the term loan is due on September 11, 2024.

The proceeds of the term loan and up to $60.0 million of the revolving credit facility may be used to (i) finance a portion of the $545.0 million loan made by the Company to AP-AMH Medical Corporation, a California professional medical corporation ("AP-AMH"), concurrently with the closing of the Credit Agreement (the "AP-AMH Loan") as described in the May 13, 2019, Current Report and the August 29, 2019, Current Report, (ii) refinance certain indebtedness of the Company and its subsidiaries and, indirectly, APC, (iii) pay transaction costs and expenses arising in connection with the Credit Agreement, the AP-AMH Loan and certain other related transactions and (iv) provide for working capital, capital expenditures and other general corporate purposes. The remainder of the revolving credit facility will be used to finance future acquisitions and investments and to provide for working capital needs, capital expenditures and other general corporate purposes.

The Company is required to pay an annual facility fee of 0.20% to 0.35% on the available commitments under the Credit Agreement, regardless of usage, with the applicable fee determined on a quarterly basis based on the Company's leverage ratio. The Company is also required to pay customary fees as specified in a separate fee agreement between the Company and SunTrust Robinson Humphrey, Inc., the lead arranger of the Credit Agreement.

Amounts borrowed under the Credit Agreement will bear interest at an annual rate equal to either, at the Company's option, (a) the rate for Eurocurrency deposits for the corresponding deposits of U.S. dollars appearing on Reuters Screen LIBOR01 Page ("LIBOR"), adjusted for any reserve requirement in effect, plus a spread of from 2.00% to 3.00%, as determined on a quarterly basis based on the Company's leverage ratio, or (b) a base rate, plus a spread of 1.00% to 2.00%, as determined on a quarterly basis based on the Company's leverage ratio. The base rate is defined in a manner such that it will not be less than LIBOR. The Company will pay fees for standby letters of credit at an annual rate equal to 2.00% to 3.00%, as determined on a quarterly basis based on the Company's leverage ratio, plus facing fees and standard fees payable to the issuing bank on the respective letter of credit. Loans outstanding under the Credit Agreement may be prepaid at any time without penalty, except for LIBOR breakage costs and expenses. If LIBOR ceases to be reported, the Credit Agreement requires the Company and the Agent to endeavor to establish a commercially reasonable alternative rate of interest and until they are able to do so, all borrowings must be at the base rate.

The Credit Agreement requires the Company and its subsidiaries to comply with various affirmative covenants, including, without limitation, furnishing updated financial and other information, preserving existence and entitlements, maintaining properties and insurance, complying with laws, maintaining books and records, requiring any new domestic subsidiary meeting a materiality threshold specified in the Credit Agreement to become a guarantor thereunder and paying obligations. The Credit Agreement requires the Company and its subsidiaries to comply with, and to use commercially reasonable efforts to the extent permitted by law to cause certain material associated practices of the Company, including APC, to comply with, restrictions on liens, indebtedness and investments (including restrictions on acquisitions by the Company), subject to specified exceptions. The Credit Agreement also contains various other negative covenants binding the Company and its subsidiaries, including, without limitation, restrictions on fundamental changes, dividends and distributions, sales and leasebacks, transactions with affiliates, burdensome agreements, use of proceeds, maintenance of business, amendments of organizational documents, accounting changes and prepayments and modifications of subordinated debt.

The Credit Agreement requires the Company to comply with two key financial ratios, each calculated on a consolidated basis. The Company must maintain a maximum consolidated leverage ratio of not greater than 3.75 to 1.00 as of the last day of each fiscal quarter. The maximum consolidated leverage ratio decreases by 0.25 each year, until it is reduced to 3.00 to 1.00 for each fiscal quarter ending after September 30, 2022. The Company must maintain a minimum consolidated interest coverage ratio of not less than 3.25 to 1.00 as of the last day of each fiscal quarter. As of September 30, 2019, the Company was in compliance with the covenants relating to its credit facility.

Pursuant to the Guaranty and Security Agreement, the Company and NMM have granted the Lenders a security interest in all of their assets, including, without limitation, all stock and other equity issued by their subsidiaries (including NMM) and all rights with respect to the AP-AMH Loan. The Guaranty and Security Agreement requires the Company and NMM to comply with various affirmative and negative covenants, including, without limitation, covenants relating to maintaining perfected security interests, providing information and documentation to the Agent, complying with contractual obligations relating to the collateral, restricting the sale and issuance of securities by their respective subsidiaries and providing the Agent access to the collateral.

The Credit Agreement contains events of default, including, without limitation, failure to make a payment when due, default on various covenants in the Credit Agreement, breach of representations or warranties, cross-default on other material indebtedness, bankruptcy or insolvency, occurrence of certain judgments and certain events under the Employee Retirement Income Security Act of 1974 aggregating more than $10.0 million, invalidity of the loan documents, any lien under the Guaranty and Security Agreement ceasing to be valid and perfected, any change in control, as defined in the Credit Agreement, an event of default under the AP-AMH Loan, failure by APC to pay dividends in cash for any period of two consecutive fiscal quarters, failure by AP-AMH to pay cash interest to the Company, or if any modification is made to the Certificate of Determination or the Special Purpose Shareholder Agreement that directly or indirectly restricts, conditions, impairs, reduces or otherwise limits the payment of the Series A Preferred dividend by APC to AP-AMH. In addition, it will constitute an event of default under the Credit Agreement if APC uses all or any portion of the consideration received by APC from AP-AMH on account of AP-AMH's purchase of Series A Preferred Stock for any purpose other than certain specific approved uses described in the following sentence, unless not less than 50.01% of all holders of common stock of APC at such time approve such use; provided that APC may use up to $50.0 million in the aggregate of such consideration for any purpose without any requirement to obtain such approval of the holders of common stock of APC. The approved uses include (i) any permitted investment, (ii) any dividend or distribution to the holders of the common stock of APC, (iii) any repurchase of common stock of APC, (iv) paying taxes relating to or arising from certain assets and transactions, or (v) funding losses, deficits or working capital support on account of certain non-healthcare assets in an amount not to exceed $125.0 million. If any event of default occurs and is continuing under the Credit Agreement, the Lenders may terminate their commitments, and may require the Company and its guarantors to repay outstanding debt and/or to provide a cash deposit as additional security for outstanding letters of credit. In addition, the Agent, on behalf of the Lenders, may pursue remedies under the Guaranty and Security Agreement, including, without limitation, transferring pledged securities of the Company's subsidiaries in the name of the Agent and exercising all rights with respect thereto (including the right to vote and to receive dividends), collect on pledged accounts, instruments and other receivables (including the AP-AMH Loan), and all other rights provided by law or under the loan documents and the AP-AMH Loan.

In the ordinary course of business, certain of the Lenders under the Credit Agreement and their affiliates have provided to the Company and its subsidiaries and the associated practices, and may in the future provide, (i) investment banking, commercial banking (including pursuant to certain existing business loan and credit agreements being terminated in connection with entering into the Credit Agreement), cash management, foreign exchange or other financial services, and (ii) services as a bond trustee and other trust and fiduciary services, for which they have received compensation and may receive compensation in the future.

Deferred Financing Costs

The Company recorded deferred financing costs of $6.4 million related to the issuance of the Credit Facility. This amount was recorded as a direct reduction of the carrying amount of the related debt liability. The deferred financing costs will be amortized over the life of the Credit Facility using the effective interest rate method.

Effective Interest Rate

The Company's average effective interest rate on its total debt during the three and nine months ended September 30, 2019 was 1.02% and 0.56%, respectively.

Bank Loan

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

NMM Business Loan

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 5.125% as of September 30, 2019 and 5.625% as of December 31, 2018. The loan was 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 of $5.0 million was fully repaid on September 11, 2019.

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 and July 29, 2019 to reduce the loan availability from $20.0 million to $16.0 million and from $16.0 million to $2.2 million, respectively. The interest rate is based on the Wall Street Journal "prime rate" plus 0.125%, or 5.125% as of September 30, 2019 and 5.625% as of 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.

On September 11, 2019, the NMM Business Loan Agreement, dated as of June 14, 2018, between NMM and Preferred Bank, as amended, and the Line of Credit Agreement, dated as of September 5, 2018, between NMM and Preferred Bank, as amended, was terminated in connection with the closing of the Credit Facility. Certain letters of credit issued by Preferred Bank under the Line of Credit Agreement was terminated and reissued under the Credit Agreement. These outstanding letters of credit totaled $14.8 million as of September 30, 2019 and the Company has $10.2 million available under the revolving credit facility.

APC Business Loan

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. On August 1, 2019 and September 10, 2019, this credit facility was further amended to increase loan availability from $40.0 million to $43.8 million, and decrease loan availability from $43.8 million to $4.1 million, respectively. This decrease further limited the purpose of the indebtedness under APC Business Loan Agreement to the issuance of standby letters of credit, and added as a permitted lien the security interest in all of its assets granted by APC in favor of NMM under a Security Agreement dated on or about September 11, 2019 securing APC's obligations to NMM under, and as required pursuant to, that certain Management Services Agreement dated as of July 1, 1999, as amended. The interest rate is based on the Wall Street Journal "prime rate" plus 0.125%, or 5.125% and 5.625% as of September 30, 2019 and December 31, 2018, respectively.

In May 2019, the Company drew down $39.6 million for capital to acquire Alpha Care. On September 11, 2019 in connection with the closing of the APC transaction (see Note 1) the outstanding amount was fully repaid.

No amounts were outstanding under the APC Business Loan Agreement as of September 30, 2019 and December 31, 2018. As of September 30, 2019 and December 31, 2018, availability under this line of credit was $0.0 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 September 30, 2019, CMS has released the Company from this obligation.

On October 2, 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. This standby letter of credit was subsequently amended on August 14, 2019 to increase amount from $6.6 million to $14.8 million and extended expiration date on December 31, 2020 with all other terms and conditions remain unchanged. In connection with the closing of the Credit Facility, this letter of credit was terminated and reissued under the Credit Agreement.

APC established irrevocable standby letters of credit with Preferred Bank under the APC Business Loan Agreement 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.

Alpha Care established irrevocable standby letters of credit with Preferred Bank under the APC Business Loan Agreement for a total of $3.8 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.

10. Mezzanine and Stockholders' Equity

Mezzanine

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 September 30, 2019 and December 31, 2018.

On December 18, 2018, the Company entered into a settlement agreement and mutual release with former APCN-ACO, Inc. 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	123,378	17.80	—	—
Options exercised	(203,524)	5.77	—	2.4
Options forfeited	—	—	—	—
Options outstanding at September 30, 2019	567,094	$ 8.22	3.60	$ 5.4
Options exercisable at September 30, 2019	466,216	$ 5.07	2.74	$ 5.3

During the nine months ended September 30, 2019 and 2018, stock options were exercised for 203,524 and 366,454 shares, respectively, of the Company's common stock, which resulted in proceeds of approximately $1.2 million and $1.5 million, respectively. The exercise price range from $1.50 to $10.00 per share for the exercises during the nine months ended September 30, 2019 and ranged from $0.01 to $10.00 per share for the exercises during the nine months ended September 30, 2018.

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

During the nine months ended September 30, 2019, the Company granted 45,000 and 78,378 five year stock options to certain ApolloMed board members and executives, with exercise price of $18.11 and $17.62, respectively, which were recognized at fair value, as determined using the Black-Scholes option pricing model and the following assumptions:

September 30, 2019	Board Members	Executives
Expected Term	3.0 years	4.0 years
Expected volatility	100.27 %	91.04 %
Risk-free interest rate	2.51 %	1.55 %
Market value of common stock	$ 18.11	$ 17.62
Annual dividend yield	— %	— %
Forfeiture rate	0 %	0 %

During the three and nine months ended September 30, 2019, the Company recorded approximately $0.1 million and $0.4 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, respectively.

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 September 30, 2019	853,800	$ 0.167	0.00	$ 0.5

The aggregate intrinsic value is calculated as the difference between the exercise price and the estimated fair value of common stock as ofSeptember 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 September 30,	
	2019	2018
Share-based compensation expense:		
General and administrative	$ 202,382	$ 202,382
	$ 202,382	$ 202,382

	Nine Months Ended September 30,	
	2019	2018
Share-based compensation expense:		
General and administrative	$ 607,146	$ 607,146
	$ 607,146	$ 607,146

Restricted Stock Awards

During the three and nine months ended September 30, 2019, the Company granted restricted stock awards totaling117,766 shares to certain executives which are earned based on service conditions. The grant date fair value is that day's closing market price of the Company's common stock. The grant date fair value of the restricted stock was $2.1 million to be recognized on a straight-line basis over the awards' vesting period ofthree years.

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	(133,221)	9.21	—	1.4
Warrants expired/forfeited	—	—	—	—
Warrants outstanding at September 30, 2019	3,198,774	$ 9.96	2.26	$ 24.5

Exercise Price Per Share	Warrants Outstanding	Weighted Average Remaining Contractual Life	Warrants Exercisable	Weighted Average Exercise Price Per Share
$ 9.00	971,165	1.04	971,165	$ 9.00
10.00	1,399,667	2.55	1,399,667	10.00
11.00	827,942	3.19	827,942	11.00
$ 9.00 –11.00	3,198,774	2.26	3,198,774	$ 9.96

During the nine months ended September 30, 2019 and 2018, common stock warrants were exercised for133,221 and 268,663 shares, respectively, of the Company's common stock, which resulted in proceeds of approximately $1.2 million and $2.1 million, respectively. The exercise price ranged from$9.00 to $11.00 per share for the exercises during the nine months ended September 30, 2019 and $4.00 to $11.00 during the nine months ended September 30, 2018.

Treasury Stock

APC owned 16,790,576 and 1,682,110 shares of ApolloMed's common stock as of September 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 closing of the APC transaction (see Note 1) and issuance of the Holdback Shares (see Note 14), 15,015,015 of shares purchased and 93,451 shares issued to APC, respectively, are treated as treasury shares. The remaining treasury shares of 168,493 were repurchased from the former APCN-ACO, Inc. shareholders in2018.

Dividends

During the nine months ended September 30, 2019 and 2018, APC paid dividends of$59.7 million and $2.0 million, respectively.

During the nine months ended September 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, Alpha Care and Accountable Health Care are required to comply with California DMHC regulations, 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.

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 to2% of the Company's benchmark Medicare Part A and Part B expenditures. The Company has established an irrevocable standby letter of credit with Preferred Bank of $14.8 million for the 2018 and 2019 performance years (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).

Alpha Care established irrevocable standby letters of credit with a financial institution for a total of $3.8 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).

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 nine months ended September 30, 2019 and 2018, NMM earned approximately $4.4 million and $6.1 million, respectively, and $12.9 million and $16.0 million, respectively, in management fees from LMA, which is accounted for under the equity method based on 25% equity ownership interest held by APC in LMA's IPA line of business (see Note 5).

During the three and nine months ended September 30, 2019 and 2018, APC paid approximately $0.7 million, respectively, and $2.1 million and $1.9 million, respectively, to PMIOC for provider services, which is accounted for under the equity method based on 40% equity ownership interest held by APC (see Note 5).

During the three and nine months ended September 30, 2019 and 2018, APC paid approximately $2.0 million and $1.7 million, respectively, and $5.8 million and $5.5 million, respectively, to DMG for provider services, which is accounted for under the equity method based on 40% equity ownership interest held by APC (see Note 5).

During the three and nine months ended September 30, 2019 and 2018, APC paid approximately $0.1 million, respectively, 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 nine months ended September 30, 2019 and 2018, APC paid an aggregate of approximately $6.7 million and $7.3 million, respectively, and $23.1 million and $29.2 million, respectively, to shareholders of APC for provider services, which include approximately $1.8 million and $2.4 million, respectively, and $6.9 million and $9.8 million, respectively, to shareholders who are also officers of APC.

During the three and nine months ended September 30, 2019 and 2018, NMM paid approximately $0.3 million, respectively and $0.8 million, respectively, to Medical Property Partners ("MPP") for an office lease. MPP shares common ownership with certain board members of NMM.

During the three and nine months ended September 30, 2018, 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 nine months ended September 30, 2019 and 2018, the Company paid approximately $0.1 million and $0.2 million, respectively, and $0.3 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 nine months ended September 30, 2019 and 2018, SCHC paid approximately $0.1 million, respectively, and $0.3 million, respectively, to Numen, LLC ("Numen") for an office lease. Numen is owned by a shareholder of APC.

During the three and nine months ended September 30, 2019, NMM paid approximately $0.3 million, respectively, to AchievaMed, Inc., for an office lease. NMM has an investment in AchievaMed (see Note 5).

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 September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
AHMC – Risk pool and Capitation	$ 11,215,000	$ 35,771,000	$ 39,165,000	$ 69,169,000
HSMSO – Management fees, net	(160,000)	(1,311,000)	(1,075,000)	(2,786,000)
Aurion – Management fees	(76,000)	(78,000)	(232,000)	(242,000)
Net total	$ 10,979,000	$ 34,382,000	$ 37,858,000	$ 66,141,000

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 nine months ended September 30, 2019 and 2018, the Company has recognized risk pool revenue under this agreement of $11.0 million and $45.2 million respectively and $31.9 million and $71.8 million, respectively, for which $34.0 million and $44.2 million remain outstanding as of September 30, 2019 and December 31, 2018, respectively.

In addition, affiliates wholly-owned by the Company's officers, including our Co-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 fiscal 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. When this occurs, the income tax provision (benefit) is 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 overall effective tax rate from quarter to quarter.

As of September 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 three and nine months ended September 30, 2019 differed from the U.S. federal statutory rate primarily due to state income taxes, income from flow through entities, nondeductible permanent items, and change in valuation allowance.

As of September 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 throughDecember 31, 2017, respectively. The Company 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 September 30, 2019 and December 31, 2018 APC held 16,790,576 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 September 30,	**2019**	**2018**
Earnings per share – basic	$ 0.11	$ 0.28
Earnings per share – diluted	$ 0.10	$ 0.24
Weighted average shares of common stock outstanding – basic	34,643,754	32,917,007
Weighted average shares of common stock outstanding – diluted	37,792,266	38,387,700

Nine Months Ended September 30,	**2019**	**2018**
Earnings per share – basic	$ 0.21	$ 0.43
Earnings per share – diluted	$ 0.20	$ 0.37
Weighted average shares of common stock outstanding – basic	34,555,124	32,672,793
Weighted average shares of common stock outstanding – diluted	37,816,698	38,010,838

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

Three Months Ended September 30,	**2019**	**2018**
Weighted average shares of common stock outstanding – basic	34,643,754	32,917,007
10% shares held back pursuant to indemnification clause	1,511,332	3,039,609
Stock options	299,536	648,724
Warrants	1,337,644	1,782,360
Weighted average shares of common stock outstanding – diluted	37,792,266	38,387,700

Nine Months Ended September 30,	2019	2018
Weighted average shares of common stock outstanding – basic	34,555,124	32,672,793
10% shares held back pursuant to indemnification clause	1,511,332	3,039,609
Stock options	307,665	633,131
Warrants	1,442,577	1,665,305
Weighted average shares of common stock outstanding – diluted	37,816,698	38,010,838

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 Accountable Health Care, and the creditors of APC, including Alpha Care and Accountable Health Care, have no recourse to the Company, nor do creditors of the Company have recourse against the assets of APC, including Alpha Care and Accountable Health 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.

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	September 30, 2019		December 31, 2018	
Assets				
Current assets				
Cash and cash equivalents	$	201,806,867	$	71,726,342
Restricted cash		20,150		—
Investment in marketable securities		1,087,197		1,066,103
Receivables, net		17,992,524		3,904,586
Receivables, net – related party		36,046,032		45,258,916
Prepaid expenses and other current assets		5,557,928		3,647,654
Loan receivable - related party, short term		6,425,000		—
Total current assets		268,935,698		125,603,601
Noncurrent assets				
Land, property and equipment, net		9,698,849		9,602,228
Intangible assets, net		91,539,651		58,984,420
Goodwill		107,551,295		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		35,840,977		26,707,404
Restricted cash		746,104		745,470
Right-of-use assets		3,758,391		—
Other assets		1,058,601		839,085
Total noncurrent assets		267,418,868		170,317,057
Total assets	$	536,354,566	$	295,920,658
Current liabilities				
Accounts payable and accrued expenses	$	8,811,988	$	6,378,751
Fiduciary accounts payable		1,734,142		1,538,598
Medical liabilities		48,759,183		24,983,110
Income taxes payable		1,393,492		11,621,861
Amount due to affiliate		26,859,007		11,505,680
Bank loan		—		40,257
Dividends payable		271,279		—
Lease liabilities		837,984		—
Capital lease obligations		101,741		101,741
Total current liabilities		88,768,816		56,169,998
Noncurrent liabilities				
Lines of credit		—		—
Deferred tax liability		23,765,062		15,693,159
Liability for unissued equity shares		1,185,025		1,185,025
Lease liabilities		2,861,560		—
Capital lease obligations		441,241		517,261
Total noncurrent liabilities		28,252,888		17,395,445
Total liabilities	$	117,021,704	$	73,565,443

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 of1 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 ofSeptember 30, 2019 and December 31, 2018, assets recorded under finance leases were$0.5 million and $0.6 million, respectively, and accumulated depreciation associated with finance leases was $0.2 million, respectively.

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

Leases with an initial term of12 months or less are not recorded on the balance sheet.

The components of lease expense were as follows:

	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Operating lease cost	$ 1,488,706	$ 3,831,665
Finance lease cost		
Amortization of lease expense	$ 25,530	76,019
Interest on lease liabilities	4,200	13,170
Sublease income	$ (102,849)	$ (308,929)
Total finance lease cost, net	$ 1,415,587	$ 3,611,925

Other information related to leases was as follows:

	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Supplemental Cash Flows Information		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 1,676,800	$ 3,949,665
Operating cash flows from finance leases	4,200	13,170
Financing cash flows from finance leases	25,530	76,019
Right-of-use assets obtained in exchange for lease liabilities:		
Operating leases	—	15,417,482
Finance leases	—	—

	Nine Months Ended September 30, 2019
Weighted Average Remaining Lease Term	
Operating leases	6.80 years
Finance leases	4.92 years
Weighted Average Discount Rate	
Operating leases	6.12 %
Finance leases	3.00 %

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

September 30, 2019	Operating Leases	Finance Leases
2019 (excluding the nine months ended September 30, 2019)	$ 956,587	$ 29,730
2020	3,375,924	118,920
2021	2,281,608	118,920
2022	1,979,546	118,920
2023	1,723,977	118,920
Thereafter	6,368,798	79,278
Total future minimum lease payments	16,686,440	584,688
Less: imputed interest	3,180,066	41,706
Total lease liabilities	13,506,374	542,982
Less: current portion	2,836,010	101,741
Long-term lease liabilities	$ 10,670,364	$ 441,241

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	$ 7,117,000	$ 674,000

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

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 under "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 1,000,000 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.

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the federal securities laws. Statements contained in this Quarterly Report on Form 10-Q that are not historical facts are forward-looking statements that the Company intends to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. Statements that are predictive in nature, that depend on or refer to future events or conditions, or that include words such as "anticipates," "believes," "could," "estimates," "expects," "intends," "may," "plans," "potential," "predicts," "projects," "should," "will," "would," and similar expressions are forward-looking statements. These forward-looking statements include, but are not limited to statements regarding: our liquidity, including cash flows from operations and as payments under the $545.0 million loan we made to AP-AMH Medical Corporation; accounting treatment; net income; and future contractual obligations; and our outlook regarding our NGACO, and our strategic transactions. These forward-looking statements are subject to risks and uncertainties that could cause actual results and events to differ materially from those included in forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in our Annual Report on Form 10-K, for the year ended December 31, 2018 filed with the Securities and Exchange Commission ("SEC") on March 18, 2019, in particular the risk factors discussed under the heading "Risk Factors" in Part I, Item IA. We assume no obligation to revise or publicly release any revision to any forward-looking statements contained in this Quarterly Report on Form 10-Q, unless required by law.

Recent Developments

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

Acquisitions

On August 30, 2019, Allied Physicians of California, a Professional Medical Corporation d.b.a. Allied Pacific of California (“APC”) and APC-LSMA Designated Shareholder Medical Corporation (“APC-LSMA”) have acquired all of the outstanding shares of capital stock in Accountable Health Care IPA, a Professional Medical Corporation ("Accountable Health Care"). In connection with the settlement of a dispute with Dr. Jayatilaka and Accountable Health Care, APC-LSMA acquired all shares of Accountable Health Care's capital stock held by Dr. Jayatilaka (comprising 75% of the outstanding shares of Accountable Health Care capital stock) in exchange for a cash payment of $7.3 million and assumption of all assets and liabilities of Accountable Health Care. APC previously owned the remaining 25% of the outstanding shares of Accountable Health Care capital stock.

On September 10, 2019, APC and APC-LSMA purchased all of the shares of all shareholders of AMG, a professional medical corporation ("AMG") for $1.7 million. AMG is a network of family practice clinics operating out of three main locations in Southern California. AMG provides professional and post-acute care services to Medicare, Medi-Cal/Medicaid, and Commercial patients through its networks of doctors and nurse practitioners.

Closing of the APC Business Transactions

On September 11, 2019, the Company, AP-AMH, APC and NMM concurrently closed the series of inter-connected transactions (the “APC Transactions”) as agreed upon on May 10, 2019. The closing included the following events:

1. The Company loaned 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, is not prepayable (except in certain limited circumstances), requires quarterly payments of interest only in arrears, and is 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 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 purchased 1,000,000 shares of APC Series A Preferred Stock for total aggregate consideration of $545.0 million in a private placement. Under the terms of the APC Certificate of Determination of Preferences of Series A Preferred Stock (the "Certificate of Determination"), AP-AMH is entitled to receive preferential, cumulative dividends that accrue on a daily basis and that are equal to the sum of (i) APC's net income from Healthcare Services (as defined in the Certificate of Determination), plus (ii) any dividends received by APC from certain of APC's affiliated entities, less (iii) any Retained Amounts (as defined in the Certificate of Determination).

3. APC purchased 15,015,015 shares of the Company's common stock for total consideration of $300.0 million in private placement. In connection therewith, the Company granted APC certain registration rights with respect to the Company's common stock that APC purchased, and APC agreed that APC votes in excess of 9.99% of the Company's then outstanding shares will be voted by proxy given to the Company's management, and that those proxy holders will cast the excess votes in the same proportion as all other votes cast on any specific proposal coming before the Company's stockholders

4. The Company licensed to AP-AMH the right to use certain tradenames for certain specified purposes 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, NMM, 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.

Other

On September 29, 2019, the Company's Board of Directors appointed Matthew Mazdyasni as a board member and appointed Brandon Sim as the Company's interim Chief Technology Officer.

On September 30, 2019, the Company appointed Kenneth Sim, M.D. to serve as Co-Chief Executive Officer and Thomas Lam, M.D., M.P.H. to serve as President of the Company. Dr. Sim will continue to serve as the Company's Executive Chairman and Dr. Lam will continue to serve as its Co-Chief Executive Officer.

On October 2, 2019, the Company entered into a new MSA, effective January 1, 2020, to provide select management services, via a subcontract agreement, to an IPA. The IPA currently serves approximately 145,000 members in three main markets within Southern California; South Los Angeles, San Fernando Valley, and Antelope Valley. The majority of the members are enrolled in Medi-Cal, with members also enrolled in Medicare Advantage and Commercial health plans, and are supported by a network of hundreds of primary care physicians and nearly a thousand specialists.

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			
	September 30, 2019	September 30, 2018	$ Change	% Change
Revenue				
Capitation, net	$ 130,807,706	$ 90,612,720	$ 40,194,986	44 %
Risk pool settlements and incentives	11,355,069	57,788,932	(46,433,863)	(80)%
Management fee income	8,517,586	12,851,178	(4,333,592)	(34)%
Fee-for-services, net	4,099,660	4,723,809	(624,149)	(13)%
Other income	1,280,203	752,642	527,561	70 %
Total revenue	156,060,224	166,729,281	(10,669,057)	(6)%
Operating expenses				
Cost of services	131,129,813	96,268,804	34,861,009	36 %
General and administrative expenses	7,949,814	9,040,336	(1,090,522)	(12)%
Depreciation and amortization	4,920,429	4,843,037	77,392	2 %
Impairment of intangibles	1,994,000	—	1,994,000	— %
Total expenses	145,994,056	110,152,177	35,841,879	33 %
Income from operations	10,066,168	56,577,104	(46,510,936)	(82)%
Other income (expense)				
Income (loss) from equity method investments	2,053,730	(4,215,056)	6,268,786	(149)%
Interest expense	(827,905)	(178,318)	(649,587)	364 %
Interest income	508,856	418,449	90,407	22 %
Other income	2,620,485	609,203	2,011,282	330 %
Total other income (expense), net	4,355,166	(3,365,722)	7,720,888	(229)%
Income before provision for income taxes	14,421,334	53,211,382	(38,790,048)	(73)%
Provision for income taxes	3,682,472	14,585,942	(10,903,470)	(75)%
Net income	$ 10,738,862	$ 38,625,440	$ (27,886,578)	(72)%
Net income attributable to noncontrolling interests	7,034,688	29,519,043	(22,484,355)	(76)%
Net income attributable to Apollo Medical Holdings, Inc.	$ 3,704,174	$ 9,106,397	$ (5,402,223)	(59)%

	For the Nine Months Ended			
	September 30, 2019	September 30, 2018	$ Change	% Change
Revenue				
Capitation, net	$ 305,548,176	$ 266,834,186	$ 38,713,990	15 %
Risk pool settlements and incentives	32,639,960	89,641,885	(57,001,925)	(64)%
Management fee income	27,866,805	37,297,358	(9,430,553)	(25)%
Fee-for-services, net	12,058,762	15,524,149	(3,465,387)	(22)%
Other income	3,753,258	4,021,480	(268,222)	(7)%
Total revenue	381,866,961	413,319,058	(31,452,097)	(8)%
Operating expenses				
Cost of services	315,925,388	280,589,061	35,336,327	13 %
General and administrative expenses	30,031,329	31,481,810	(1,450,481)	(5)%
Depreciation and amortization	13,792,581	14,819,627	(1,027,046)	(7)%
Provision for bad debt	(1,363,415)	—	(1,363,415)	— %
Impairment of intangibles	1,994,000	—	1,994,000	— %
Total expenses	360,379,883	326,890,498	33,489,385	10 %
Income from operations	21,487,078	86,428,560	(64,941,482)	(75)%
Other income (expense)				
Income (loss) from equity method investments	1,161,791	(2,573,219)	3,735,010	(145)%
Interest expense	(1,349,933)	(374,002)	(975,931)	261 %
Interest income	1,305,528	1,180,990	124,538	11 %
Other income	2,831,830	884,948	1,946,882	220 %
Total other income (expense), net	3,949,216	(881,283)	4,830,499	(548)%
Income before provision for income taxes	25,436,294	85,547,277	(60,110,983)	(70)%
Provision for income taxes	6,483,630	23,338,589	(16,854,959)	(72)%
Net income	$ 18,952,664	$ 62,208,688	$ (43,256,024)	(70)%
Net income attributable to noncontrolling interests	11,563,610	48,277,734	(36,714,124)	(76)%
Net income attributable to Apollo Medical Holdings, Inc.	$ 7,389,054	$ 13,930,954	$ (6,541,900)	(47)%

Net Income Attributable to Apollo Medical Holdings, Inc.

Our net income attributable to Apollo Medical Holdings, Inc. for the three months ended September 30, 2019 was $3.7 million, as compared to net income of $9.1 million for the same period in 2018, a decrease of $5.4 million or 59%. The decrease in net income attributable to Apollo Medical Holdings, Inc. was primarily attributable to the decrease to revenue as discussed in the section below.

Our net income attributable to Apollo Medical Holdings, Inc. for the nine months ended September 30, 2019 was $7.4 million, as compared to net income of $13.9 million for the same period in 2018, a decrease of $6.5 million or 47%. The decrease in net income attributable to Apollo Medical Holdings, Inc. was primarily attributable to the decrease to revenue as discussed in the section below.

Physician Groups and Patients

As of September 30, 2019 and 2018, the total number of affiliated physician groups managed by us was 12 and 12 groups, respectively, and the total number of patients for whom we managed the delivery of healthcare services was approximately 1,000,000 and 1,039,859, 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 September 30, 2019 was $156.1 million, as compared to $166.7 million for the three months ended September 30, 2018, a decrease of $10.6 million, or 6%. The decrease in revenue was primarily attributable to the following;

(i) Capitation revenues increased by approximately $40.2 million primarily due to the acquisition of Alpha Care as of May 31, 2019 and Accountable Health Care as of August 30, 2019 which contributed revenues of approximately $34.5 million and $4.6 million, respectively, for the three months ended September 30, 2019.

(ii) Risk pool revenue decreased by $46.4 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 $4.3 million mainly due to the acquisition of Accountable Health Care and a decrease in the number of patients served by some of our affiliated physician groups, including an affiliated physician group that ceased operations on January 31, 2019 as their primary health plan canceled their contract.

(iv) Fee-for-service revenue decreased by $0.6 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 increased by $0.5 million as a result of changes in the accrual of revenue related to maternity supplemental payments.

Our revenue for the nine months ended September 30, 2019 was $381.9 million, as compared to $413.3 million for the nine months ended September 30, 2018, a decrease of $31.4 million, or 8%. The decrease in revenue was primarily attributable to the following:

(i) Capitation revenues increased by approximately $38.7 million primarily due to the acquisitions of Alpha Care and Accountable Health Care which were acquired as of May 31, 2019 and August 30, 2019, respectively, and contributed approximately $45.9 million and $4.6 million of revenue, respectively, for the nine month period ended September 30, 2019. This increase was offset by the delayed commencement by the Centers for Medicare & Medicaid Services ("CMS") of APAACO's 2019 Next Generation ACO performance year to April 1, 2019 which resulted in decreased revenue of approximately $11.8 million.

(ii) Risk pool revenue decreased by $57.0 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 $9.4 million mainly due to the acquisition of Accountable Health Care and a decrease in the number of patients served by some of our affiliated physician groups, including an affiliated physician group that ceased operations on January 31, 2019 as their primary health plan canceled their contract.

(iv) Fee-for-service revenue decreased by $3.4 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 $0.3 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 September 30, 2019 were $131.1 million, as compared to $96.3 million for the same period in 2018, an increase of $34.8 million, or 36%. The overall increase was due to a $37.6 million increase in medical claims, capitation and other health services expenses, primarily driven by the Alpha Care and Accountable Health Care acquisitions, and $1.9 million increase in management fee expense paid to the prior MSO related to Alpha Care's transition, offset with a decrease in provider bonus payment of $4.7 million.

Expenses related to cost of services for the nine months ended September 30, 2019 were $315.9 million, as compared to $280.6 million for the same period in 2018, an increase of $35.3 million, or 13%. The overall increase was due to a $34.9 million increase in medical claims, capitation and other health services expenses, primarily driven by the Alpha Care and Accountable Health Care acquisitions, a $2.8 million increase in management fee expense related to Alpha Care's transition, and an increase of $1.7 million in personnel costs to support the continued growth in depth and breadth of our operations. These increases were offset with a decrease in provider bonus payment of $4.1 million.

General and Administrative Expenses

General and administrative expenses for the three months ended September 30, 2019 were $7.9 million, as compared to $9.0 million for the same period in 2018, a decrease of $1.1 million, or 12%. The overall decrease is primarily due to a reduction in professional services costs of $2.0 million specific only to three months ended September 30, 2019. Net of this reduction, general and administrative expenses increased by $0.9 million from the continued growth in depth and breadth of our operations.

General and administrative expenses for the nine months ended September 30, 2019 were $30.0 million, as compared to $31.5 million for the same period in 2018, a decrease of $1.5 million, or 5%. The overall decrease is primarily due to a reduction in professional services costs of $2.0 million specific only to three months ended September 30, 2019. Net of this reduction, general and administrative expenses increased by $0.5 million from the continued growth in depth and breadth of our operations.

Depreciation and Amortization

Depreciation and amortization expense for the three and nine months ended September 30, 2019 were $4.9 million and $13.8 million, respectively, as compared to $4.8 million and $14.8 million, respectively, for the same period in 2018. This amount includes depreciation of property and equipment and the amortization of intangible assets.

Provision for Doubtful Accounts

For the nine months ended September 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. These reserves were related to Accountable Health Care and no longer necessary as a result of our acquisition. As such our provision for doubtful accounts was a negative $1.4 million for the nine months ended September 30, 2019, respectively.

Impairment of Intangibles

For the three and nine months ended September 30, 2019, we impaired intangible assets totaling $2.0 million related to Medicare licenses obtained as part of the Merger. We will no longer utilize the licenses and as such will not receive future economic benefits.

Income (Loss) from Equity Method Investments

Income from equity method investments for the three months ended September 30, 2019 was $2.1 million, as compared to loss from equity method investments of $4.2 million for the same period in 2018, an increase of $6.3 million, or 149%. The increase was primarily due to a $1.8 million gain recognized in our investment of Accountable Health Care and equity earnings from our investments in UCI, DMG, and PMIOC of $0.9 million, offset with equity losses in our investments in LMA's IPA line of business, MWN, and 531 College LLC, of $0.6 million for the three months ended September 30, 2019 as compared to equity losses from our investment in UCI of $4.6 million offset with equity earnings from our investments LMA's IPA line of business, DMG, PASC, and PMIOC of $0.4 million in the same period in 2018.

Income from equity method investments for the nine months ended September 30, 2019 was $1.2 million, as compared to loss from equity method investments of $2.6 million for the same period in 2018, an increase of $3.8 million, or 145%. The increase was primarily due to equity earnings from our investments in UCI, DMG, and PMIOC of $7.0 million offset by equity losses in our investments of Accountable Health Care, LMA's IPA line of business, MWN, and 531 College LLC, of $5.5 million in the nine months ended September 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. This is compared to equity losses in our investments of UCI and LMA's IPA line of business of $3.7 million offset by equity earnings from our investments in DMG, PASC, and PMIOC of $1.1 million in the same period in 2018.

Interest Expense

Interest expense for the three months ended September 30, 2019 was $0.8 million, as compared to $0.2 million for the same period in 2018, an increase of $0.6 million, or 364%. The increase was primarily due to new credit facility secured in September 2019 to fund growth, primarily through acquisitions.

Interest expense for nine months ended September 30, 2019 was $1.3 million, as compared to $0.4 million for the same period in 2018, an increase of $0.9 million, or 261%. The increase was primarily due to increased borrowings on our line of credits and the new credit facility secured in September 2019 to fund growth, primarily through acquisitions.

Interest Income

Interest income for the three and nine months ended September 30, 2019 was $0.5 million and $1.3 million, respectively, as compared to $0.4 million and $1.2 million, respectively, for the three and nine months ended September 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 nine months ended September 30, 2019 was $2.6 million and $2.8 million, respectively, as compared to $0.6 million and $0.9 million, respectively for the same periods in 2018. Increase in other income is primarily driven by the assumption of a loan receivable as a result of the Accountable Health Care acquisition.

Income Tax (Benefit) Provision

Income tax expense was $3.7 million for the three months ended September 30, 2019, as compared to $14.6 million for the same period in 2018. The decrease in tax expense was due to decreased income in the three months ended September 30, 2019 period as compared to the same period in 2018, as described above.

Income tax expense was $6.5 million for the nine months ended September 30, 2019, as compared to $23.3 million for the same period in 2018. The decrease in tax expense was due to lower earnings in the nine months ended September 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 $7.0 million for the three months ended September 30, 2019 compared to $29.5 million for the same period in 2018, a decrease of $22.5 million, or 76%. The decrease was primarily due to a decrease in risk pool revenue generated from APC mainly attributable to the refinement of the assumptions used to estimate the amount of net surplus expected to be received from the affiliated hospitals' risk pools and the close of the series of transaction resulting in guaranteed dividends being allocated to ApolloMed and reducing noncontrolling interest by $1.6 million.

Net income attributable to noncontrolling interests was $11.6 million for the nine months ended September 30, 2019, compared to $48.3 million for the same period in 2018, a decrease of $36.7 million, or 76%. This decrease was primarily due to a decrease in risk pool revenue generated from APC mainly attributable to the refinement of the assumptions used to estimate the amount of net surplus expected to be received from the affiliated hospitals' risk pools and the close of the series of transaction resulting in guaranteed dividends being allocated to ApolloMed and reducing noncontrolling interest by $1.6 million.

Liquidity and Capital Resources

Cash, cash equivalents and investment in marketable securities at September 30, 2019 totaled $231.5 million. Working capital totaled $216.2 million at September 30, 2019, compared to $100.8 million at December 31, 2018, an increase of $115.4 million, or 114.5%.

We have historically financed our operations primarily through internally generated funds. We generate cash primarily from capitations, risk pool settlements and incentives, fees for medical management services provided to our affiliated physician groups, as well as fee-for-service reimbursements. We generally invest cash in money market accounts, which are classified as cash and cash equivalents. We believe we have sufficient liquidity to fund our operations at least through the next twelve months.

Our cash, cash equivalents and restricted cash increased by $123.5 million from $107.6 million at December 31, 2018 to $231.1 million at September 30, 2019. Cash provided by operating activities during the nine months ended September 30, 2019 was $10.1 million. The cash provided by operations during the nine months ended September 30, 2019 is a function of net income of $19.0 million, adjusted for the following non-cash operating items: depreciation and amortization of $13.8 million, impairment of intangible assets of $2.0 million, and share-based compensation of $1.0 million, offset by earnings from equity method investments of approximately $1.1 million, release of provision for doubtful accounts of $1.4 million, gain related to assumption of loan receivables of $2.3 million and a change in deferred tax liability of$0.2 million. Our cash provided by operating activities includes a net decrease in operating assets and liabilities of $20.7 million.

Cash used in investing activities during the nine months ended September 30, 2019 was $60.4 million, due primarily to the acquisitions of several businesses, net of cash, totaling $49.4 million, a loan advance of $7.4 million, funding for an equity method investment of $3.0 million, and capital expenditures (mainly purchases of property and equipment) of $0.8 million, offset with dividends received of $0.2 million during the nine months ended September 30, 2019.

Cash provided by financing activities during the nine months ended September 30, 2019 was $173.7 million primarily due to net borrowings of $237.0 million and proceeds from exercise of stock options and warrants of $3.1 million offset by dividend payments of $60.7 million and costs of debt and equity issuance costs of $5.7 million during the nine months ended September 30, 2019.

Credit Facilities

Credit Facility

On September 11, 2019, the Company entered into a secured credit agreement (the “Credit Agreement”) with SunTrust Bank, in its capacity as administrative agent for the lenders (in such capacity, the “Agent”), as a lender, an issuer of letters of credit and as swingline lender, and Preferred Bank, JPMorgan Chase Bank, N.A., MUFG Union Bank, N.A., Royal Bank of Canada, Fifth Third Bank and City National Bank, as lenders (the “Lenders”). In connection with the closing of the Credit Agreement, the Company, its subsidiary, NMM, and the Agent entered into a Guaranty and Security Agreement (the “Guaranty and Security Agreement”), pursuant to which, among other things, NMM guaranteed the obligations of the Company under the Credit Agreement.

The Credit Agreement provides for a five-year revolving credit facility to the Company of $100.0 million ("Revolver Loan"), which includes a letter of credit subfacility of up to $25.0 million. The Credit Agreement also provides for a term loan of $190.0 million, ("Term Loan A"). The unpaid principal amount of the term loan is payable in quarterly installments on the last day of each fiscal quarter commencing on December 31, 2019. The principal payment for each of the first eight fiscal quarters is $2.4 million, for the following eight fiscal quarters is $3.6 million and for the following three fiscal quarters is $4.8 million. The remaining principal payment on the term loan is due on September 11, 2024.

The proceeds of the term loan and up to $60.0 million of the revolving credit facility may be used to (i) finance a portion of the $545.0 million loan made by the Company to AP-AMH Medical Corporation, a California professional medical corporation (“AP-AMH”), concurrently with the closing of the Credit Agreement (the “AP-AMH Loan”) as described in the May 13, 2019 Current Report and the August 29, 2019 Current Report, (ii) refinance certain indebtedness of the Company and its subsidiaries and, indirectly, Allied Physicians of California, a Professional Medical Corporation, a California professional medical corporation (“APC”), (iii) pay transaction costs and expenses arising in connection with the Credit Agreement, the AP-AMH Loan and certain other related transactions and (iv) provide for working capital, capital expenditures and other general corporate purposes. The remainder of the revolving credit facility will be used to finance future acquisitions and investments and to provide for working capital needs, capital expenditures and other general corporate purposes.

The Company is required to pay an annual facility fee of 0.20% to 0.35% on the available commitments under the Credit Agreement, regardless of usage, with the applicable fee determined on a quarterly basis based on the Company’s leverage ratio. The Company is also required to pay customary fees as specified in a separate fee agreement between the Company and SunTrust Robinson Humphrey, Inc., the lead arranger of the Credit Agreement.

Amounts borrowed under the Credit Agreement will bear interest at an annual rate equal to either, at the Company’s option, (a) the rate for Eurocurrency deposits for the corresponding deposits of U.S. dollars appearing on Reuters LIBOR01screen page (“LIBOR”), adjusted for any reserve requirement in effect, plus a spread of from 2.00% to 3.00%, as determined on a quarterly basis based on the Company’s leverage ratio, or (b) a base rate, plus a spread of 1.00% to 2.00%, as determined on a quarterly basis based on the Company’s leverage ratio. The base rate is defined in a manner such that it will not be less than LIBOR. The Company will pay fees for standby letters of credit at an annual rate equal to 2.00% to 3.00%, as determined on a quarterly basis based on the Company’s leverage ratio, plus facing fees and standard fees payable to the issuing bank on the respective letter of credit. Loans outstanding under the Credit Agreement may be prepaid at any time without penalty, except for LIBOR breakage costs and expenses. If LIBOR ceases to be reported, the Credit Agreement requires the Company and the Agent to endeavor to establish a commercially reasonable alternative rate of interest and until they are able to do so, all borrowings must be at the base rate.

The Credit Agreement requires the Company and its subsidiaries to comply with various affirmative covenants, including, without limitation, furnishing updated financial and other information, preserving existence and entitlements, maintaining properties and insurance, complying with laws, maintaining books and records, requiring any new domestic subsidiary meeting a materiality threshold specified in the Credit Agreement to become a guarantor thereunder and paying obligations. The Credit Agreement requires the Company and its subsidiaries to comply with, and to use commercially reasonable efforts to the extent permitted by law to cause certain material associated practices of the Company, including APC, to comply with, restrictions on liens, indebtedness and investments (including restrictions on acquisitions by the Company), subject to specified exceptions. The Credit Agreement also contains various other negative covenants binding the Company and its subsidiaries, including, without limitation, restrictions on fundamental changes, dividends and distributions, sales and leasebacks, transactions with affiliates, burdensome agreements, use of proceeds, maintenance of business, amendments of organizational documents, accounting changes and prepayments and modifications of subordinated debt.

The Credit Agreement requires the Company to comply with two key financial ratios, each calculated on a consolidated basis. The Company must maintain a maximum consolidated leverage ratio of not greater than 3.75 to 1.00 as of the last day of each fiscal quarter. The maximum consolidated leverage ratio decreases by 0.25 each year, until it is reduced to 3.00 to 1.00 for each fiscal quarter ending after September 30, 2022. The Company must maintain a minimum consolidated interest coverage ratio of not less than 3.25 to 1.00 as of the last day of each fiscal quarter. As of September 30, 2019, the Company was in compliance with the covenants relating to its credit facility.

Pursuant to the Guaranty and Security Agreement, the Company and NMM have granted the Lenders a security interest in all of their assets, including, without limitation, all stock and other equity issued by their subsidiaries (including NMM) and all rights with respect to the AP-AMH Loan. The Guaranty and Security Agreement requires the Company and NMM to comply with various affirmative and negative covenants, including, without limitation, covenants relating to maintaining perfected security interests, providing information and documentation to the Agent, complying with contractual obligations relating to the collateral, restricting the sale and issuance of securities by their respective subsidiaries and providing the Agent access to the collateral.

The Credit Agreement contains events of default, including, without limitation, failure to make a payment when due, default on various covenants in the Credit Agreement, breach of representations or warranties, cross-default on other material indebtedness, bankruptcy or insolvency, occurrence of certain judgments and certain events under the Employee Retirement Income Security Act of 1974 aggregating more than $10.0 million, invalidity of the loan documents, any lien under the Guaranty and Security Agreement ceasing to be valid and perfected, any change in control, as defined in the Credit Agreement, an event of default under the AP-AMH Loan, failure by APC to pay dividends in cash for any period of two consecutive fiscal quarters, failure by AP-AMH to pay cash interest to the Company, or if any modification is made to the Certificate of Determination or the Special Purpose Shareholder Agreement that directly or indirectly restricts, conditions, impairs, reduces or otherwise limits the payment of the Series A Preferred dividend by APC to AP-AMH. In addition, it will constitute an event of default under the Credit Agreement if APC uses all or any portion of the consideration received by APC from AP-AMH on account of AP-AMH's purchase of Series A Preferred Stock for any purpose other than certain specific approved uses described in the following sentence, unless not less than 50.01% of all holders of common stock of APC at such time approve such use; provided that APC may use up to $50.0 million in the aggregate of such consideration for any purpose without any requirement to obtain such approval of the holders of common stock of APC. The approved uses include (i) any permitted investment, (ii) any dividend or distribution to the holders of the common stock of APC, (iii) any repurchase of common stock of APC, (iv) paying taxes relating to or arising from certain assets and transactions, or (v) funding losses, deficits or working capital support on account of certain non-healthcare assets in an amount not to exceed $125.0 million. If any event of default occurs and is continuing under the Credit Agreement, the Lenders may terminate their commitments, and may require the Company and its guarantors to repay outstanding debt and/or to provide a cash deposit as additional security for outstanding letters of credit. In addition, the Agent, on behalf of the Lenders, may pursue remedies under the Guaranty and Security Agreement, including, without limitation, transferring pledged securities of the Company's subsidiaries in the name of the Agent and exercising all rights with respect thereto (including the right to vote and to receive dividends), collect on pledged accounts, instruments and other receivables (including the AP-AMH Loan), and all other rights provided by law or under the loan documents and the AP-AMH Loan.

In the ordinary course of business, certain of the Lenders under the Credit Agreement and their affiliates have provided to the Company and its subsidiaries and the associated practices, and may in the future provide, (i) investment banking, commercial banking (including pursuant to certain existing business loan and credit agreements being terminated in connection with entering into the Credit Agreement), cash management, foreign exchange or other financial services, and (ii) services as a bond trustee and other trust and fiduciary services, for which they have received compensation and may receive compensation in the future.

Deferred Financing Costs

The Company recorded deferred financing costs of $6.4 million related to the issuance of the Credit Facility. This amount was recorded as a direct reduction of the carrying amount of the related debt liability. The deferred financing costs will be amortized over the life of the Credit Facility using the effective interest rate method.

Effective Interest Rate

The Company's average effective interest rate on its total debt during the three and nine months ended September 30, 2019 was 1.02% and 0.56%, respectively.

Lines of Credit – Related Party

NMM Business Loan

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 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 million to $27 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 5.125% as of September 30, 2019 and 5.625% as of December 31, 2018. The loan was 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 of $5.0 million was fully repaid on September 11, 2019.

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 and July 29, 2019 to reduce the loan availability from $20.0 million to $16.0 million and from $16.0 million to $2.2 million, respectively. The interest rate is based on the Wall Street Journal "prime rate" plus 0.125%, or 5.125% as of September 30, 2019 and 5.625% as of 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.

On September 11, 2019, the Business Loan Agreement, dated as of June 14, 2018, between NMM and Preferred Bank, as amended, and the Line of Credit Agreement, dated as of September 5, 2018, between NMM and Preferred Bank, as amended, was terminated in connection with the closing of the Credit Facility. Certain letters of credit issued by Preferred Bank under the Line of Credit Agreement was terminated and reissued under the Credit Agreement. These outstanding letters of credit totaled $14.8 million as of September 30, 2019 and the company has $10.2 million available under the revolving credit facility.

APC Business Loan

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. On August 1, 2019 and September 10, 2019, this credit facility was further amended to increase loan availability from $40.0 million to $43.8 million, and decrease loan availability from $43.8 million to $4.1 million, respectively. This decrease further limited the purpose of the indebtedness under APC Business Loan Agreement to the issuance of standby letters of credit, and added as a permitted lien the security interest in all of its assets granted by APC in favor of NMM under a Security Agreement dated on or about September 11, 2019 securing APC's obligations to NMM under, and as required pursuant to, that certain Management Services Agreement dated as of July 1, 1999, as amended. The interest rate is based on the Wall Street Journal "prime rate" plus 0.125%, or 5.125% and 5.625% as of September 30, 2019 and December 31, 2018, respectively.

During the nine month period ended September 30, 2019, the Company drew down $39.6 million for capital to acquire Alpha Care. On September 11, 2019 in connection with the closing of the APC transaction the outstanding amount was fully repaid.

In connection with the closing of the Credit Agreement, there were no amounts outstanding as of September 30, 2019 and December 31, 2018. As of September 30, 2019 and December 31, 2018, availability under this line of credit was $0.0 million and $9.7 million, respectively.

Bank Loan

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.

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 nine-month period ended September 30, 2019:

			Nine Months Ended September 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%	$ 5,601,308	$ 5,601,308	$ 770,000	$ —
ACC	1,000,000	10%	1,288,643	1,283,078	5,565	—
MMG	3,000,000	10%	3,310,270	3,310,270	—	—
AKM	5,000,000	10%	—	—	—	—
SCHC	5,000,000	10%	4,508,707	4,507,214	—	—
BAHA	250,000	10%	4,065,992	4,065,992	—	—
	$ 24,250,000		$ 18,774,920	$ 18,767,862	$ 775,565	$ —

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 September 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 ofSeptember 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 except as 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 September 11, 2019, ApolloMed, AP-AMH, and APC, concurrently consummated a series of interrelated transactions (collectively, the "APC Transactions"). As disclosed elsewhere in this Quarterly Report and in ApolloMed's other reports on file with the SEC, the APC Transactions included the following agreements and transactions: (i) ApolloMed made a $545.0 million ten-year secured loan to AP-AMH Loan; (ii) AP-AMH used all of the proceeds of that loan to purchase 1,000,000 shares of Series A Preferred Stock of APC; (iii) ApolloMed obtained the funds to make the AP-AMH Loan (x) by entering into a $290.0 million senior secured credit facility (the "Credit Facility") with SunTrust Bank, in its capacity as administrative agent for various lenders, and then immediately drawing down $250.0 million in cash, and (y) by selling $300.0 million shares of ApolloMed common stock to APC, the purchase price of which was offset against $300.0 million of AP-AMH's purchase price for its APC Preferred Stock. NMM guaranteed the obligations of ApolloMed under the Credit Facility, and both ApolloMed and NMM have granted the lenders a security interest in all of their assets, including, without limitation, in all stock and other equity issued by their subsidiaries (including the shares of NMM) and all rights with respect to the AP-AMH Loan.

The APC Transactions may expose ApolloMed, its subsidiaries and its VIEs to additional risks, including without limitation, the following: AP-AMH may never be able to repay the AP-AMH Loan; even if AP-AMH does not, or cannot repay the loan, ApolloMed will be obligated to pay principal and interest on the $290.0 million Credit Facility; in connection with the Credit Facility, the lenders were granted a first priority perfected security interest over all of the assets of ApolloMed and its subsidiaries, and such lenders have the right to foreclose on those assets if ApolloMed defaults on its obligations under the Credit Facility; a disconnect could arise between APC achieving net income, declaring and paying dividends to AP-AMH, and AP-AMH making its required payments to ApolloMed, which disconnect could materially impact ApolloMed's financial results and its ability to make its required payments under the Credit Facility; APC may be prohibited from paying, or may be unable to pay the dividends on its Series A Preferred Stock, including under the California Corporations Code; regulators could determine that the current, 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 ApolloMed and restrict its future activities.

The “Risk Factors” section of the definitive proxy statement of ApolloMed’s board of directors that ApolloMed filed with the SEC on July 31, 2019 (the “Proxy Statement”) described these and certain other risks related to the APC Transactions that could arise if the APC Transactions are consummated. Since the APC Transactions have now closed, the APC Transactions-related risk factors described in the “Risk Factors” portion of the Proxy Statement, including the risks described in the Proxy Statement under the headings listed below, are hereby incorporated herein by reference:

- AP-AMH may never be able to repay the AP-AMH Loan.
- Whether or not AP-AMH pays us, we will be obligated to pay principal and interest on the secured senior credit facility we are entering into in order to make the AP-AMH Loan.
- The terms of the credit agreement we will need to secure could restrict our operations, particularly our ability to respond to changes in our business or to take specified actions, and an event of default under such credit agreement could harm our business.
- In connection with the credit facility, the creditor will have a first priority perfected security interest over all of our assets and those of our subsidiaries, and such creditor would be able to foreclose on our assets if we default on our obligations under the credit facility and security agreement.
- AP-AMH will be required to fund APC losses and deficits but may not have the funds to do so.
- There may be a timing disconnect between APC achieving net income subject to the Series A Dividend, declaring and paying dividends to AP-AMH and AP-AMH’s payments to ApolloMed, and any failure to pay or late payment of dividends could materially impact our financial results.
- The impact of the APC Transactions may prove to be negative in future periods.
- If there is a change in accounting principles or the interpretation thereof affecting our anticipated accounting treatment for the APC Transactions, it could impact our earnings per share.
- The Series A Dividends payable to AP-AMH must be declared by the APC board, and that board could fail to do so.
- APC may be prohibited from paying or unable to pay the Series A Dividends, including under the California Corporations Code, which could cause the APC Transactions structure to collapse.
- We may have no recourse against AP-AMH if it is unable to make its payments to ApolloMed and NMM.
- The entitlement to receive the Series A Dividend will not necessarily mean that AP-AMH will be distributing all of the net income from APC’s Healthcare Services business and assets.
- Regulators could determine that the post-APC Transactions consolidated structure amounts to ApolloMed violating California’s corporate practice of medicine doctrine.
- ApolloMed could be subject to the California Finance Lenders Law as a result of the AP-AMH Loan.
- We may be deemed an investment company, which could impose on us burdensome compliance requirements and restrict our activities.

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

During the three months ended September 30, 2019, the Company issued an aggregate of 89,661 shares of common stock and received approximately $814,506 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	First Amendment to the Stock Purchase Agreement dated August 26, 2019, by and between Allied Physicians of California, a California Professional Medical Corporation and Apollo Medical Holdings, Inc. (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on August 29, 2019).
10.2	First Amendment to the Series A Preferred Stock Purchase Agreement dated August 26, 2019, by and between Allied Physicians of California, a California Professional Medical Corporation and AP-AMH Medical Corporation, a Professional Medical Corporation (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on August 29, 2019).
10.3	First Amendment to the Loan Agreement dated August 26, 2019, by and between Apollo Medical Holdings, Inc. and AP-AMH Medical Corporation, a Professional Medical Corporation (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on August 29, 2019).
10.4	Credit Agreement dated as of September 11, 2019, by and among Apollo Medical Holdings, Inc., as Borrower, the Lenders from time to time party thereto, and SunTrust Bank, in its capacity as administrative agent for the Lenders, as issuing bank and as swingline lender (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 12, 2019).
10.5	Guaranty and Security Agreement dated as of September 11, 2019, by and among Apollo Medical Holdings, Inc., as Borrower, and Network Medical Management, Inc., as Guarantor, in favor of SunTrust Bank, as administrative agent for the Secured Parties (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on September 12, 2019).

10.6	Second Amendment to Series A Stock Purchase Agreement dated as of September 9, 2019, by and between Allied Physicians of California, a Professional Medical 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 September 12, 2019).
10.7	First Amendment to Special Purpose Shareholder Agreement, dated as of September 11, 2019, by and between Allied Physicians of California, a Professional Medical 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 September 12, 2019).
10.8	First Amendment to Tradename Licensing Agreement, dated as of September 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 10.5 to the Company's Current Report on Form 8-K filed on September 12, 2019).
10.9	First Amendment to Administrative Services Agreement, dated as of September 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 10.6 to the Company's Current Report on Form 8-K filed on September 12, 2019).
10.10	Security Agreement, dated as of September 11, 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 10.7 to the Company's Current Report on Form 8-K filed on September 12, 2019).
10.11	Certificate of Determination of Preferences of Series A Preferred Stock of Allied Physicians of California, a Professional Medical Corporation (incorporated herein by reference to Exhibit 10.8 to the Company's Current Report on Form 8-K filed on September 12, 2019).
10.12	Voting and Registration Rights Agreement, dated as of September 11, 2019, by and between Apollo Medical Holdings, Inc., a Delaware corporation, and Allied Physicians of California, a Professional Medical Corporation (incorporated herein by reference to Exhibit 10.9 to the Company's Current Report on Form 8-K filed on September 12, 2019).
10.13	Second Amendment to Loan Agreement, dated September 11, 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 10.10 to the Company's Current Report on Form 8-K filed on September 12, 2019).
10.14*	Form of Amendment to Stockholder Lock-up Agreement entered into on or about September 26, 2019.
10.15††	Board of Directors Agreement, dated September 29, 2019, with Matthew Mazdyasni (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 30, 2019).
31.1*	Certification by the Co-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 Co-Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934.
31.3*	Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934.
32**	Certification of Periodic Financial Report by the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. §1350, as adopted pursuant to pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document
††	Management contract or compensatory plan or arrangement.
*	Filed herewith.

** Furnished herewith

SIGNATURE

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

APOLLO MEDICAL HOLDINGS, INC.

Dated: November 8, 2019	By:	/s/ Kenneth Sim
		Kenneth Sim, M.D. Executive Chairman & Co-Chief Executive Officer (Principal Executive Officer)
Dated: November 8, 2019	By:	/s/ Thomas Lam
		Thomas Lam, M.D., M.P.H. Co-Chief Executive Officer & President (Principal Executive Officer)
Dated: November 8, 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), which was previously extended to and including September 30, 2019, is hereby further extended to and including January 31, 2020. 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

EXHIBIT 31.1

Certification of Co-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, Kenneth Sim, 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 financing 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: November 8, 2019

/s/ Kenneth Sim

Kenneth Sim
Co-Chief Executive Officer

EXHIBIT 31.2

Certification of Co-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 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 financing 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: November 8, 2019

/s/ Thomas Lam

Thomas Lam
Co-Chief Executive Officer

EXHIBIT 31.3

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 financing 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: November 8, 2019

/s/ Eric Chin

Eric Chin
Chief Financial Officer

EXHIBIT 32

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 September 30, 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:	November 8, 2019	/s/ Kenneth Sim
		Kenneth Sim
		Co-Chief Executive Officer
Date:	November 8, 2019	/s/ Thomas Lam
		Thomas Lam
		Co-Chief Executive Officer
Date:	November 8, 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.