Apollo Medical Holdings, Inc.
Form 10-Q
September 10, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED July 31, 2010

OR

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

COMMISSION FILE NUMBER: 000-25809

APOLLO MEDICAL HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	20-8046599 (I.R.S. Employer Identification Number)

450 N. Brand Blvd., Suite 600
Glendale, California 91203
(Address of principal executive offices)

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

(Former Name or Former Address, if Changed Since Last Report)

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 x No o .

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o	Smaller reporting company x

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

As of August 10,, 2010, there were 27,635,774 shares of the registrant's common stock, $0.001 par value per share, issued and outstanding.

APOLLO MEDICAL HOLDINGS, INC.

INDEX TO FORM 10-Q FILING

FOR THE THREE AND SIX MONTHS ENDED JULY 31, 2010 AND 2009

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APOLLO MEDICAL HOLDINGS, INC.

CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	As of July 31, 2010	As of January 31, 2010
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 534,332	$ 665,737
Accounts receivable, net	622,734	457,517
Receivable from officers	23,664	23,483
Due from affiliate	3,650	2,850
Prepaid expenses	12,567	30,165
Total current assets	1,196,947	1,179,752
Prepaid commssion cost	95,312	114,063
Property and equipment - net	10,196	11,627
TOTAL ASSETS	$ 1,302,455	$ 1,305,442
LIABILITIES AND STOCKHOLDERS' DEFICIT:		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$ 114,457	$ 104,252
Total current liabilities	114,457	104,252
Convertible notes, net	1,247,985	1,247,582
Total liabilities	1,362,442	1,351,834
STOCKHOLDERS' DEFICIT:		
Preferred stock, par value $0.001 ; 5,000,000 shares authorized; none issued	-	-
Common Stock, par value $0.001; 100,000,000 shares authorized, 27,635,774 and 27,041,328 shares issued and outstanding as on July 31, 2010 and January 31, 2010	27,636	27,041
Additional paid-in-capital	986,266	939,483
Accumulated deficit	(1,302,004)	(1,241,031)
Total	(288,102)	(274,507)
Non-controlling interest	228,115	228,115
Total stockholders' deficit	(59,987)	(46,392)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 1,302,455	$ 1,305,442

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

APOLLO MEDICAL HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS AND SIX MONTHS ENDED JULY 31, 2010 AND 2009
(UNAUDITED)

	For the Three Months ended July 31, 2010	For the Three Months ended July 31, 2009	For the Six Months ended July 31, 2010	For the Six Months ended July 31, 2009
REVENUES	$ 1,039,695	$ 580,942	$ 1,842,580	$ 1,082,125
COST OF SERVICES	864,719	387,692	1,539,405	807,247
GROSS REVENUE	174,976	193,250	303,175	274,878
Operating expenses:				
General and administrative	190,516	122,105	275,708	294,668
Depreciation	2,993	10,338	5,999	20,675
Total operating expenses	193,509	132,443	281,707	315,343
PROFIT/(LOSS) FROM OPERATIONS	(18,533)	60,807	21,468	(40,465)
OTHER EXPENSES:				
Interest expense	31,465	4,958	62,988	9,807
Financing cost	9,375	-	18,750	-
Other expense	757	-	(97)	-
Total other expenses	41,597	4,958	81,641	9,807
INCOME/(LOSS) BEFORE INCOME TAXES	(60,130)	55,849	(60,173)	(50,272)
Provision for income tax	-	-	800	800
NET INCOME/(LOSS)	$ (60,130)	$ 55,849	$ (60,973)	$ (51,072)
WEIGHTED AVERAGE SHARES OF COMMON STOCK OUTSTANDING, BASIC AND DILUTED	27,452,197	26,096,306	27,342,771	25,985,136
*BASIC AND DILUTED NET INCOME/(LOSS) PER SHARE	$ (0.00)	$ 0.00	$ (0.00)	$ (0.00)

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

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

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APOLLO MEDICAL HOLDINGS, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTH PERIODS ENDED JULY 31, 2010 AND 2009
(UNAUDITED)

	Six month periods ended July 31, 2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (60,973)	$ (51,072)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	5,999	20,675
Bad debt expense	(64,566)	2,253
Issuance of shares for services	47,167	95,167
Amortization of prepaid commsion cost	18,750	-
Amortization of debt discount	403	-
Changes in assets and liabilities:		
Accounts receivable	(100,650)	(77,567)
Receivable from officers	(181)	
Prepaid financing cost	-	-
Prepaid expenses	17,599	11,718
Deferred compensation	-	22,000
Accounts payable and accrued liabilities	10,205	(9,944)
Net cash provided by/(used in) operating activities	(126,248)	13,230
CASH FLOWS FROM INVESTING ACTIVITIES:		
Property and equipment	(4,568)	-
Due from related parties	(800)	-
Net cash used in investing activities	(5,368)	-
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from shares issued	211	-
Payments of notes payable	-	(18,741)
Proceeds from business line	-	12,087
Net cash used in financing activities	211	(6,654)
NET INCREASE/(DECREASE) IN CASH & CASH EQUIVALENTS	(131,405)	6,576
CASH & CASH EQUIVALENTS, BEGINNING BALANCE	665,737	84,161
CASH & CASH EQUIVALENTS, ENDING BALANCE	$ 534,332	$ 90,737
SUPPLEMENTARY DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid during the six month period	$ 62,586	$ 5,061
Taxes paid during the six month period	1,600	1,600
Conversion of notes payable to equity	$ -	$ 200,000

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

APOLLO MEDICAL HOLDINGS, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business

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

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared by Apollo in accordance with U.S. generally accepted accounting principles for interim financial statements. The statements consist solely of the management company, Apollo Medical Holdings, Inc. prior to August 1, 2008. Commencing with the Company's third quarter on August 1, 2008, and concurrent with the execution of the Management Services Agreement, the statements reflect the consolidation of AMM and AMH, in accordance with EITF 97-2, Application of FASB Statement No. 94 and APB Opinion No. 16 to Physician Management Entities and Certain Other Entities with Contractual Management Agreements. In management's opinion, all adjustments, consisting of normal recurring adjustments necessary for the fair presentation of the results of the interim periods are reflected herein. Operating results for the six month period ended July 31, 2010 are not necessarily indicative of future financial results.

The condensed consolidated financial statements and notes are presented as permitted by Form 10-Q and do not contain all of the information that is included in the annual financial statements and notes of the Company. The condensed consolidated financial statements and notes presented herein should be read in conjunction with the financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended January 31, 2010.

Use of Estimates

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

Reclassification

Certain comparative amounts have been reclassified to conform to the six month periods ended July 31, 2010 and 2009.

Fair Value of Financial Instruments

Statement of financial accounting standard No. 107(ASC 825), Disclosures about fair value of financial instruments, requires that the Company disclose estimated fair values of financial instruments. The carrying amounts reported in the statements of financial position for assets and liabilities qualifying as financial instruments are a reasonable estimate of fair value.

Credit and Supply Risk

The Company's case rate and capitation revenues, reported by Apollo's affiliate, AMH, are governed by contractual agreements with medical groups/IPA's and hospitals. As a result, receivables from this business are generally fully collected. The Company does face issues related to the timing of these collections, and the Company must assess the level of earned but uncollected revenue to which it is entitled at each period end. The Company does face collection issues with regard to its fee-for-service revenues. One is the estimation of the amount to be received from each billing since the Company invoices on a Medicare schedule and each of many providers remits payment on a reduced schedule. The Company has to estimate the amount it will ultimately receive from each billing and properly record revenue. One contract with our clients provides 30 percent of reported revenues.

Recently Issued Accounting Pronouncements

In January 2010, FASB issued ASU No. 2010-06 – Improving Disclosures about Fair Value Measurements. This update provides amendments to Subtopic 820-10 that requires new disclosure as follows: 1) Transfers in and out of Levels 1 and 2. A reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. 2) Activity in Level 3 fair value measurements. In the reconciliation for fair value measurements using significant unobservable inputs (Level 3), a reporting entity should present separately information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number). This update provides amendments to Subtopic 820-10 that clarifies existing disclosures as follows: 1) Level of disaggregation. A reporting entity should provide fair value measurement disclosures for each class of assets and liabilities. A class is often a subset of assets or liabilities within a line item in the statement of financial position. A reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities. 2) Disclosures about inputs and valuation techniques. A reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. Those disclosures are required for fair value measurements that fall in either Level 2 or Level 3. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. These disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Company is currently evaluating the impact of this ASU, however, the Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

In February 2010, FASB issued ASU No. 2010-9 –Amendments to Certain Recognition and Disclosure Requirements. This update addresses certain implementation issues related to an entity's requirement to perform and disclose subsequent-events procedures, removes the requirement that public companies disclose the date of their financial statements in both issued and revised financial statements. According to the FASB, the revised statements include those that have been changed to correct an error or conform to a retrospective application of U.S. GAAP. The amendment is effective for interim and annual reporting periods in fiscal year ending after June 15, 2010. The Company does not expect the adoption of this ASU to have a material impact on the Company's consolidated financial statements.

In April 2010, The FASB issued ASU No. 2010-17, Revenue Recognition – Milestone Method (Topic 605), to provide guidance on the criteria that should be met for determining whether the milestone method of revenue recognition is appropriate. The amendments in the update are effective on a prospective basis for milestones achieved for fiscal years, and interim periods within those years, beginning on or after June 15, 2010. Early adoption is permitted. The Company is currently assessing the future impact of this new accounting update to its financial statements.

Stock-based compensation

On October 17, 2006 the Company adopted SFAS No. 123R (ASC 718), "Share-Based Payment, an Amendment of FASB Statement No. 123." As of the date of this report the Company has no stock based incentive plan in effect.

Basic and Diluted Earnings Per Share

Earnings per share is calculated in accordance with the Statement of financial accounting standards No. 128 (SFAS No. 128, ASC 260), "Earnings per share". SFAS No. 128 superseded Accounting Principles Board Opinion No.15 (APB 15). Net income (loss) per share for all periods presented has been restated to reflect the adoption of SFAS No. 128. Basic net income per share is based upon the weighted average number of common shares outstanding. Diluted net income (loss) per share is based on the assumption that all dilutive convertible shares and stock options were converted or exercised. Dilution is computed by applying the treasury stock method. Under this method, options and warrants are assumed to be exercised at the beginning of the period (or at the time of issuance, if later), and as if funds obtained thereby were used to purchase common stock at the average market price during the period.

Cash and Cash Equivalents

Cash and cash equivalents at July 31, 2010 was $534,332 and included cash in bank representing the Company's current operating account and $487,647 in a brokerage money market account. The $46,685 balance in the Company's operating account is insured by the FDIC.

Revenue Recognition

The Company recognizes Case Rate, Hourly and Capitation revenue when persuasive evidence of an arrangement exists, service has been rendered, the service rate is fixed or determinable, and collection is reasonable assured. Fee for Service revenues are recorded at amounts reasonably assured to be collected. The determination of reasonably assured collections is based on historical Fee for Service collections as a percent of billings. The provisions are adjusted to reflect actual collections in subsequent periods.

The estimation and the reporting of patient responsibility revenues is highly subjective and depends on the payer mix, contractual reimbursement rates, collection experiences, judgment and other factors. The Company's fee arrangements are with various payers, including managed care organizations, hospitals, insurance companies, individuals, Medicare and Medicaid.

3. Uncertainty of ability to continue as a going concern

The Company's financial statements are prepared using the generally accepted accounting principles applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. However, the Company has an accumulated deficit of $1,302,004 as of July 31, 2010. Net Cash Flow used by Operating Activities for the six months ended July 31, 2010 was $126,248.

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

To date the Company has funded its operations from both internally generated cash flow and external sources, and the proceeds available from the private placement provide funds for near-term operations and growth. The Company will pursue additional external capitalization opportunities, as necessary, to fund its long-term goals and objectives.

4. Accounts Receivable

Accounts Receivable is stated at the amount management expects to collect from outstanding balances. An allowance for doubtful accounts is provided for those accounts receivable considered to be uncollectible, based upon historical experience and management's evaluation of outstanding accounts receivable at each quarter end. As of July 31, 2010, Accounts Receivable totals $622,734, net of a provision for bad debt expense of $46,410, and represents amounts

invoiced by AMH. Accounts Receivable was $457,517, net of the provision for bad debt expense of $110,976, on January 31, 2010.

5. Other Receivables

Other receivables total $23,664 and $23,483 at July 31, 2010 and January 31, 2010, respectively, and represent amounts due the Company from two officers. The balances were interest free, unsecured and due on demand.

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6. Due from affiliate

Due from affiliate totals $3,650 and $2,850 as of July 31, 2010 and January 31, 2010, respectively, and represents amounts due from AMA, an unconsolidated Affiliate of the Company.

7. Prepaid Expenses

Prepaid Expenses of $12,567 and $30,165 as of July 31, 2010 and January 31, 2010, respectively, are amounts prepaid for medical malpractice insurance and Director's and Officer's insurance.

8. Prepaid Commission Cost

Unamortized financing cost of $95,312 on July 31, 2010 and $114,063 as of January 31, 2010 represent the financing cost associated with 10% Senior Subordinated Callable Convertible Notes due January 31, 2013, $125,000 paid by the Company on the closing of the placement on October 16, 2009 (see Note 11).

9. Property and Equipment

Property and Equipment consists of the following as of :

	July 31, 2010	January 31, 2010
Website	$ 4,568	$
Computers	13,912	13,912
Software	138,443	138,443
Machinery and equipment	50,815	50,815
Gross Property and Equipment	207,738	203,170
Less accumulated depreciation	(197,542)	(191,543)
Net Property and Equipment	$ 10,196	$ 11,627

The Company had no Capital Expenditures in the quarter ended July 31, 2010. Capital expenditures totaled $4,568 at AMM in the quarter ended April 30, 2010 for the development of a Company web site.

Depreciation expense was $2,993 and $10,338 for the three month periods ended July 31, 2010 and 2009, respectively. Depreciation expense was $5,999 and $20,675 for the six month periods ended July 31, 2010 and 2009, respectively.

10. Accounts Payable and Accrued Liabilities

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

	July 31, 2010	January 31, 2010
Accounts payable	$ 76,875	$ 32,460
D&O insurance payable		8,210
Accrued professional fees	15,575	22,141
Accrued payroll and income taxes	22,007	41,441
Total	$ 114,457	$ 104,252

11. Long-term Debt

The Company’s long-term debt consisted of the following at July 31, 2010 and January 31, 2010

	July 31, 2010	January 30, 2010
Subordinated Borrowings:		
10% Senior Subordinated Convertible Notes due January 31, 2013	$ 1,247,985	$ 1,247,582
Total long-term debt	$ 1,247,985	$ 1,247,582
Less: Current Portion	_	_
Total	$ 1,247,985	$ 1,247,582

Subordinated Borrowings

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

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

In connection with the placement of the subordinated notes, the Company paid a commission of $125,000 and $25,000 of other direct expenses. The agent also received five-year warrants to purchase up to 250,000 shares of the Common Stock at an initial exercise price of $0.25 per share. The agent also received 100,000 shares of restricted common stock for pre-transaction advisory services and due diligence. The commission of $125,000 paid at closing, is accounted for as prepaid financing cost and will be amortized over a forty-month period through January 31, 2013, the maturity date of the notes. The $25,000 of other direct expenses were paid at closing and reported as financing costs in the Operating Statement in the year ended January 31, 2010. In addition, financing costs included $4,000 related to the value of the 100,000 shares granted to the Placement Agent.

The 10% Notes are convertible any time prior to January 31, 2013. The initial conversion rate is 200,000 shares of the Company’s common stock per $25,000 principal amount of the 10% Notes (Subject to certain events). This represents an initial conversion price of $0.125 per share of the Company’s common stock.

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

The Warrants attached to the Units are exercisable into shares of Common Stock at an initial exercise price of $0.125. The Warrants have a five-year term and expire on October 31, 2014. These warrants were estimated to have a fair value of $2,653 using the Black-Scholes pricing model which was recorded as unamortized warrant discount on granted date and $2,015 as of July 31, 2010.

In connection with this offering, the Company also issued warrants to purchase 250,000 shares of our common stock to the placement agent which were estimated to have a fair value of $2,200 using the Black-Scholes pricing model and was recorded as unamortized warrant discount on granted date. These warrants have an exercise price of $0.25 per share, are exercisable immediately upon issuance and expire five years after the date of issuance.

The Company recorded interest expense of $ 31,250 and $62,500 related to these notes for the three months and six months ended July 31, 2010, respectively. No interest related to these subordinated borrowings was reported for the respective periods in 2009.

12. Related Party Transactions

During the six months ended July 31, 2010 and 2009, the Company generated revenue of $367,000 and $201,135, respectively, by providing management services to ApolloMed Hospitalists (AMH), an affiliated company with common ownership interest. Commencing August 1, 2008, the management services fee income reported by AMM was eliminated in consolidation against similar costs recorded at AMH.

13. Non-Controlling Interest

The Company recorded AMH owner ship interest in the accompanying financial statements as Non-Controlling Interest of $228,115 at July 31, 2010 and January 31, 2010.

14. Stockholder’s Equity

In the second quarter ended July 31, 2010, the Company issued 211,113 common shares to Suresh Nihalani, a Director, under an amendment to his Board of Director's Agreement dated October 27, 2008, which brought the total outstanding shares to 27,635,774 at July 31, 2010. (see Note 15) The Company recorded an expense of $17,100 on shares issued for the period ended July 31, 2010.

In the first quarter ended April 30, 2010, the Company issued 383,333 common shares. A total of 350,000 shares were issued to Kanehoe Advisors and 33,333 shares were issued to Suresh Nihalani, a director. The total shares of 383,333 were valued at $30,066 based on the fair value of shares at issuance dates.

The Company issued a total of 1,171,108 common shares in the twelve months ended January 31, 2010, including 266,665 shares in the second quarter ended July 31, 2009, 826,666 shares in the third quarter ended October 31, 2009, and 77,777 shares in the fourth quarter ended January 31, 2010. The 266,665 shares were issued on May 14, 2009 to nine holders of convertible notes that had exercised their conversion rights. Of the 826,666 shares, 716,666 were issued to officers and directors, 100,000 shares were issued to the Placement Agent for advisory services and 10,000 shares were issued to an employee. The 77,777 shares issued in the fourth quarter were to Suresh Nihalani, a Director of the Company.

Warrants outstanding:

No warrants were issued by the Company in the six months ended July 31, 2010.

	Aggregate intrinsic value	Number of warrants
Outstanding at January 31, 2010	$ —	2,125,803
Granted	—	-
Exercised	—	—
Lapsed	—	165,620
Outstanding at July 31, 2010	$ —	1,960,183

Exercise Price	Warrants outstanding	Weighted average remaining contractual life	Warrants exercisable	Weighted average exercise price
$ 1.100	304,850	0.50	304,850	$ 1.10
$ 1.500	155,333	1.24	155,333	$ 1.50
$ 0.250	1,250,000	4.25	1,250,000	$ 0.25
$ 0.250	250,000	4.25	250,000	$ 0.25

15. Commitments and Contingency

On March 15, 2009, the Company entered into a Consulting Agreement with Kaneohe Advisors LLC (Kyle Francis) under which Mr. Francis would become the Company's Executive Vice President, Business Development and Strategy. Under the terms of the Agreement, Mr. Francis will be paid $8,000 per month. In addition, Mr. Francis received 350,000 shares of restricted stock at the date of the Agreement and is entitled to 350,000 additional restricted shares on the first and second anniversaries of the Agreement, provided the Agreement is not terminated. The initial 350,000 shares, along with 50,000 shares granted to Mr. Francis in the year ended January 2009, were issued in the third quarter ended October 31, 2009. On March 15, 2010, the first anniversary of the Consulting Agreement, Mr. Francis was granted an additional 350,000 shares (see Note 14).

On October 27, 2008, the Company entered into a Board of Director's Agreement with Suresh Nihalani, under which the Company agreed to issue a stock award of 400,000 shares to Mr. Nihalani. Under the terms of the Director's Agreement, these shares will be issued ratably over a thirty-six month period commencing December 2008. The shares will be released to Mr. Nihalani on a monthly basis during his tenure as a Director. The distribution of shares will continue as long as Mr. Nihalani serves on the Board, but will cease when Mr. Nihalani is no longer a Director. Mr. Nihalani was issued 188,887 shares under this Director's Agreement through April 30, 2010. (see Note 14)

On July 16, 2010, the Company and Mr. Nihalani agreed to amend the October 27, 2008 Director's Agreement, whereby the Company issued 211,113 shares of Common Stock to Mr. Nihalani. These 211,113 shares represented the balance of the shares due Mr. Nihalani under his agreement and brought the total shares held by Suresh Nihalani to 400,000 common shares. Under the Amendment, the Company has the right to repurchase shares in the event that Mr. Nihalani fails to serve as a Director through November 30, 2011.

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

The following management’s discussion and analysis should be read in conjunction with the unaudited condensed consolidated financial statements and the notes thereto included in this Quarterly Report. In addition, reference is made to our audited consolidated financial statements and notes thereto and related Management’s Discussion and Analysis of Financial Condition and Results of Operations included in our most recent Annual Report on Form 10-K for the year ended January 31, 2009, filed with the Securities and Exchange Commission (SEC) on May 18, 2009.

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

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

Overview

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

Results of Operations and Operating Data

Three Months Ended July 31, 2010 vs. Three Months Ended July 31, 2009

Apollo reported net revenues of $1,039,695 for the three months ended July 31, 2010, compared to net revenues of $580,942 for the comparable three month period ended July 2009. The revenue increase of $458,753, or 79%, was attributable to new hospital contracts, increased same-market area growth and expansion of services with existing medical group clients at new hospitals. Net revenues are comprised of net billings by AMH under the various fee structures from health plans, medical groups/IPA's and hospitals, and income from service fee agreements.

Physician practice salaries, benefits and other expenses for the three months ended July 31, 2010 were $864,719, at 83% of net revenues, compared to $387,692 for the three months ended July 31, 2009, at 67% of net revenues. Cost of Services includes the payroll and consulting costs of the physicians, all payroll related costs, costs for all medical malpractice insurance and physician privileges. The increase in physician costs were attributable to start-up losses at new hospital contracts and expansions of services at new hospitals in the quarter.

General and administrative expenses include all salaries, benefits, supplies and operating expenses, not specifically related to the day-to-day operations of our physician group practices, including billing and collections functions, and our corporate management and overhead. General and administrative expenses were $190,516, at 18% of net revenues, for the three months ended July 31, 2010, higher by $68,411 from General and Administrative expenses of $122,105 for the three months ended July 31, 2009, at 21% of net revenues. In the second quarter of 2010, the Company recorded bad debt expense of $25,700 compared to bad debt expense of $1,791in the second quarter of 2009. Legal fees in the second quarter of 2010 of $26,775 compared to legal fees of $10,610. In addition, Apollo recorded an expense of $17,100 related to shares issued to a director, and incurred higher rent, audit and public company costs.

Depreciation and amortization expense was $2,993 for the three months ended July 31, 2010, and $10,338 for the comparable three-month period in 2009.

The Company reported a loss from operations of $18,533 for the three months ended July 31, 2010, compared to a profit from operations of $60,807 recorded in the same period of 2009. Although net revenues in 2010 continued to benefit from the addition of contracts with hospitals and the hiring of several additional physicians, the higher cost of services as a percent of revenue, 84% in the quarter just ended versus 67% in the second quarter of 2009, impeded the operating results.

Interest expense and amortization of financing costs totaled $40,840 for the three months ended July 31, 2010, compared to interest and financing costs of $4,958 in the three months ended July 31, 2009. Interest expense and financing costs in 2010 included interest on the subordinated borrowings of $31,250, and the amortization of financing costs of $9,375, related to these notes. Interest expense in the three months ended July 31, 2009 of $4,958 represents interest expense paid on the SBA loan with Wells Fargo Bank, interest expense on convertible notes and interest expense accrued at AMM for related party notes.

A net loss of $60,130 was reported for the three months ended July 31, 2010, compared to a net income of $55,849 for the three months ended July 31, 2009. The factors contributing to the net loss in the current quarter compared to the net income in the quarter ended July 2009 are discussed above.

Six Months Ended July 31, 2010 vs. Six Months Ended July 31, 2009

Net revenues for the six months ended July 31, 2010 of $1,842,580 increased $760,455, or 70 percent, over net revenues of $1,082,125 reported for the six months ended July 31, 2009. Net revenues are comprised of net billings by AMH under the various fee structures from health plans, medical groups/IPA's and hospitals, and income from service fee agreements. The increase was attributable to new hospital contracts, increased same-market area growth and expansion of services with existing medical group clients at new hospitals.

Physician practice salaries, benefits and other expenses for the six months ended July 31, 2010 were $1,539,405, at 84% of net revenues, compared to $807,247 , at 75% of net revenues, for the six months ended July310, 2009. Cost of Services includes the payroll and consulting costs of the physicians, all payroll related costs, costs for all medical malpractice insurance and physician privileges. The increase in physician costs was attributable to start-up losses on new hospital contracts and expansions of services at new hospitals in the quarter.

General and administrative expenses include all salaries, benefits, supplies and operating expenses, not specifically related to the day-to-day operations of our physician group practices, including billing and collections functions, and our corporate management and overhead. General and administrative expenses were $275,708, at 15% of net revenues, for the six months ended July 31, 2010. General and Administrative expenses were $294,668 for the six months ended July 31, 2009, at 27% of net revenues. In the six months ended July 2010, the Company recorded non-cash compensation expenses of $47,378, related to the issuance of shares for service, lower than the $95,167 of such non-cash costs in the first six months of 2009. Also, the Company recorded a reduction in bad debt expense of $64,566 in the six month period ended July 2010. The Company incurred higher legal fees, rent and consulting fees which partially offset the above two favorable factors. Depreciation and amortization expense was $5,999 for the six months ended July 31, 2010, and $20,675 for the comparable six-month period in 2009.

The Company reported a profit from operations of $21,468 for the six months ended July 31, 2010, compared to a loss from operations of $40,465 recorded in the same period of 2009. Net revenues in 2010 continued to benefit from the addition of contracts with hospitals and the hiring of several additional physicians. In addition, the operating profit in 2010 benefitted from the lower non-cash compensation costs and a favorable adjustment to bad debt expense.

Interest expense and the amortization of financing costs totaled $81,738 for the six months ended July 31, 2010, compared to interest and financing costs of $9,807 in the six months ended July 31, 2009. Interest expense and financing costs in 2010 included interest on the subordinated borrowings of $62,500, and the amortization of financing costs of $18,750, related to these notes. Interest expense in the six months ended July 31, 2009 of $9,807 included interest on the convertible notes, interest expense paid on the SBA loan with Wells Fargo Bank, and interest expense accrued at AMM for the related party notes.

Apollo reported a net loss of $60,973 for the six months ended July 31, 2010, compared to a net loss of $51,072 for the six months ended July 31, 2009. The reduction in the net loss was the result of the factors discussed above.

Liquidity and Capital Resources

At July 31, 2010, the Company had cash and cash equivalents of $534,332, compared to cash and cash equivalents of $665,737 at January 31, 2010. The cash balance at July 31, 2010 included $487,647 in a money market brokerage account. There were no short-term borrowings at July 31, 2010 or January 31, 2010. Long-term borrowings totaled $1,247,985 as of July 31, 2010 and $1,247,582 on January 31, 2010.

Net cash used in operating activities totaled $126,248 in the six months ended July 31, 2010, compared to net cash provided by operations of $13,230 for the comparable six months ended July 31, 2009. The large unfavorable adjustment in bad debt expense and the greater increase in accounts receivable in the six months ended July 2010 were responsible for the decrease in the operating cash flow.

Net cash used in operating activities for the three months ended July 31, 2010 of $126,248 was comprised of a net loss of $60,973 for the six month period. Adjustments for non-cash charges which include depreciation, bad debt expense, shares issued for service and amortization of commission cost and debt discount, provided $7,753. In addition, net changes in operating assets and liabilities used cash of $73,028.

The Company invested $4,568 to develop a Web Site and an $800 advance to an affiliated Company during the first six months of 2010. We did not spend any cash for investing activities in the comparable six-month period of 2009.

For the six months ended July 31, 2010, the Company received $211 from the issuance of shares to a director under financing activities. In the six months ended July 2009, net cash used in financing activities totaled $6,655 and consisted of principal pay downs on notes payable totaling $18,741, partially offset by $12,087 of borrowings on the Company's SBA loan with Wells Fargo Bank.

Credit Facility and Liquidity

The Company's Business Line with Wells Fargo Bank provides a revolving line of credit of $70,000, and is linked to the AMH bank account. The line can be used for short-term working capital needs and provides overdraft protection. The line cannot be used for letters of credit. There were no borrowings under this facility during the six months ended July 31, 2010.

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

Off Balance Sheet Arrangements

As of July 31, 2010, we had no off-balance sheet arrangements.

Recently Adopted and New Accounting Pronouncements

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures.

In connection with the preparation of this Quarterly Report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Principal Financial and Accounting Officer, of the effectiveness of our disclosure controls and procedures, as of July 31, 2010, in accordance with Rules 13a-15(b) and 15d-15(b) of the Exchange Act.

Based on that evaluation, our Chief Executive Officer and Principal Financial and Accounting Officer have concluded that our disclosure controls and procedures were not effective as of July 31, 2010.

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

1. We do not have written documentation of our internal control policies and procedures. Written documentation of key internal controls over financial reporting is a requirement of Section 404 of the Sarbanes-Oxley Act. Management evaluated the impact of our failure to have written documentation of our internal controls and procedures on our assessment of our disclosure controls and procedures, and concluded that the control deficiency that resulted represented a material weakness.

2. We do not have sufficient segregation of duties within accounting functions, which is a basic internal control. Due to our size and nature, segregation of all conflicting duties may not always be possible and may not be economically feasible. However, to the extent possible, the initiation of transactions, the custody of assets and the recording of transactions should be performed by separate individuals. Management evaluated the impact of our failure to have segregation of duties on our assessment of our disclosure controls and procedures, and concluded that the control deficiency that resulted represented a material weakness.

3. We do not have review and supervision procedures for financial reporting functions. The review and supervision function of internal control relates to the accuracy of financial information reported. The failure to review and supervise could allow the reporting of inaccurate or incomplete financial information. Due to our size and nature, review and supervision may not always be possible or economically feasible. Management evaluated the impact of our significant number of audit adjustments, and concluded that the control deficiency that resulted represented a material weakness.

Based on the foregoing materials weaknesses, we have determined that, as of July 31, 2010, that our disclosure controls and procedures are insufficient. The Company continues to take steps to improve the timeliness and accuracy of its financial information, including the hiring of additional employees to facilitate proper segregation of duties. Our management is responsible for establishing and maintaining adequate disclosure controls and procedures, as defined in Rule 15d-15(e) under the Exchange Act, and for assessing the effectiveness of our disclosure controls and procedures. It should be noted that any system of controls and procedures, however well designed and operated, can provide only reasonable and not absolute assurance that the objectives of the system are met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of certain events. Because of these and other inherent limitations of control systems, there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. Therefore, even those systems determined to be effective can only provide reasonable assurance of achieving their control objectives.

Changes in Internal Controls over Financial Reporting

There has been no change in our internal control over financial reporting during our most recently completed fiscal quarter (i.e., the six-month period ended July 31, 2010) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. Not Applicable

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

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

Exhibit Number	Description
10.6	Amendment to Suresh Nihalani's Director Agreement and Indemnification Agreement , dated July 17, 2010, (filed as exhibits to Current Report on Form 8-K filed on July 21, 2010 and incorporated herein by reference).
10.7	2010 Equity Incentive Plan (filed as Appendix A to Schedule 14C Information filed on August 17, 2010 and incorporated herein by reference).
31.1	Certification by Chief Executive Officer, required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act.
31.2	Certification by Chief Financial Officer, required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act.
32.1	

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

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SIGNATURES

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

APOLLO MEDICAL HOLDINGS, INC.

Dated: September 10, 2010	By:	/s/ Warren Hosseinion Warren Hosseinion Chief Executive Officer and Director
Dated: September 10, 2010	By:	/s/ A. Noel DeWinter A. Noel DeWinter Chief Financial Officer and Principal Accounting Officer