

Apollo Medical Holdings, Inc.  
Form 10-Q  
August 14, 2017

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

*(Mark One)*

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

For the quarterly period ended **June 30, 2017**

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

**Commission File No.**

**001-37392**

**Apollo Medical Holdings, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**

**46-3837784**

State of Incorporation IRS Employer Identification No.

**700 North Brand Boulevard, Suite 1400**

**Glendale, California 91203**

(Address of principal executive offices)

**(818) 396-8050**

(Issuer's telephone number)

(Former name, former address and former fiscal year, if changed since last report)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each Class	Name of each Exchange on which Registered
	None

Securities Registered Pursuant to Section 12(g) of the Act:

Common Stock, \$.001 Par Value

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 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  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. (Check one):

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Large accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

Emerging growth company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

Yes  No

As of August 10, 2017, there were 6,033,495 shares of common stock, \$.001 par value per share, issued and outstanding.

**APOLLO MEDICAL HOLDINGS, INC.**

**INDEX TO FORM 10-Q FILING**

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## INTRODUCTORY NOTE

Unless the context dictates otherwise, references in this Quarterly Report on Form 10-Q (the “Report”) to the “Company,” “we,” “us,” “our,” “ApolloMed” and similar words are to Apollo Medical Holdings, Inc., a Delaware corporation, its consolidated subsidiaries and affiliated medical groups (including variable interest entities). The Centers for Medicare & Medicaid Services (“CMS”) have not reviewed any statements contained in this Report describing the participation of APA ACO, Inc. in the Next Generation ACO Model.

## Forward-Looking Statements

This document contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). All statements other than statements of historical fact are “forward-looking statements” for purposes of federal and state securities laws, including, but not limited to, any projections of earnings, revenue or other financial items, such as our projected capitation from CMS; any statements of the plans, strategies and objectives of management for future operations; any statements concerning proposed new services, developments, mergers or acquisitions, including the proposed Merger (defined below); any statements regarding management's view of future expectations, plans and prospects for us; any statements about prospective adoption of new accounting standards or effects of changes in accounting standards; any statements regarding future economic conditions or performance; any statements of belief; and any statements of assumptions underlying any of the foregoing.

Forward-looking statements involve risks and uncertainties and are based on the current expectations and certain assumptions of the Company's management. Some or all of such expectations and assumptions may not materialize or may vary significantly from actual results. We further caution that such statements are qualified by important economic, competitive, governmental and technological factors that could cause our business, strategy, or actual results or events to differ materially, or otherwise, from those in the forward-looking statements in this Report.

Forward-looking statements may include the words “anticipate,” “could,” “may,” “might,” “potential,” “predict,” “should,” “es,” “expect,” “project,” “believe,” “think,” “plan,” “envision,” “intend,” “continue,” “target,” “contemplate,” “budgeted,” “will” and comparable words, phrases or terminology. These forward-looking statements present our estimates and assumptions only as of the date of this report and are subject to change. Except as required by law, we do not intend, and undertake no obligation, to update any forward-looking statement, whether as a result of the receipt of new information, the occurrence of future events, the change of circumstances or otherwise. We further do not accept any responsibility for any projections or reports published by analysts, investors or other third parties.

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Although we believe that the expectations reflected in any of our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed in any of our forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to change and inherent risks and uncertainties. Some of the key factors impacting these risks and uncertainties include, but are not limited to:

- risks related to our ability to raise capital as equity or debt to finance our ongoing operations and new acquisitions, for liquidity, or otherwise;

- our ability to retain key individuals, including our Chief Executive Officer, Warren Hosseinion, M.D., and other members of senior management;

- the impact of rigorous competition in the healthcare industry generally;

- the uncertainty regarding the adequacy of our liquidity to pursue our business objectives;

- the fluctuations in the market value of our common stock;

- the impact on our business, if any, as a result of changes in the way market share is measured by third parties;

- our dependence on a few key payors;

- whether or not we receive an “all or nothing” annual payment from the CMS in connection with our participation in the Medicare Shared Savings Program (the “MSSP”);

- the success of our focus on our next generation accountable care organization (“NGACO”), to which we have devoted, and intend to continue to devote, considerable effort and resources, financial and otherwise, including whether we can manage medical costs for patients assigned to us within the capitation received from CMS;

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

- the overall success of our acquisition strategy in locating and acquiring new businesses, and the integration of any acquired businesses with our existing operations;

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

changing rules and regulations regarding reimbursements for medical services from private insurance, on which we are significantly dependent in generating revenue;

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

· industry-wide market factors, laws, regulations and other developments affecting our industry in general and our operations in particular, including the impact of any change to applicable laws and regulations relating to trade, monetary and fiscal policies, taxes, price controls, regulatory approval of new products, licensing and healthcare reform;

· general economic uncertainty;

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

· risks related to changes in accounting literature or accounting interpretations;

· the impact, including additional costs, of mandates and other obligations that may be imposed upon us as a result of new or revised federal and state healthcare laws, such as the Patient Protection and Affordable Care Act (the “ACA”), the rules and regulations promulgated thereunder, any executive or regulatory action with respect thereto and any changes with respect to any of the foregoing by legislative bodies (including the 115<sup>th</sup> United States Congress), including any possible repeal thereof; and

risks related to our ability to consummate the pending merger (the “Merger”) with Network Medical Management, Inc. (“NMM”) and, if the proposed Merger is consummated, successfully integrate our operations with those of NMM; including (i) the occurrence of any event, change or other circumstances that could give rise to the termination of the Merger Agreement or affect the timing or ability to complete the proposed Merger as contemplated, such as the inability to complete the proposed Merger due to the failure to obtain stockholder approval or the failure to satisfy other conditions to the closing of the proposed Merger or for any other reason; (ii) the effects of the proposed Merger on our current plans, operations, financial results and business relationships; (iii) diversion of management time on issues related to the proposed Merger; (iv) the amount of costs, fees, expenses, impairments and charges related to the proposed Merger; (v) the risk that the businesses of NMM and the Company will not be integrated successfully, or that the integration will be more costly or more time consuming and complex than anticipated; and (vi) the risk that synergies anticipated to be realized from the proposed Merger may not be fully realized or may take longer to realize than expected.

For a detailed description of these and other factors that could cause actual results to differ materially from those expressed in any forward-looking statement, please see the section entitled “Risk Factors,” beginning on page 28 of our Annual Report on Form 10-K for the year ended March 31, 2017, filed with the Securities and Exchange Commission (the “SEC”) on June 29, 2017 and the section entitled “Risk Factors,” beginning on page 44 of the registration statement on Form S-4, filed with the SEC by us and NMM on August 10, 2017. In light of the foregoing, investors are advised to carefully read this Report in connection with the important disclaimers set forth above and are urged not to rely on any forward-looking statements in reaching any conclusions or making any investment decisions about us or our



securities.

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

	June 30, 2017	March 31, 2017
<b>ASSETS</b>		
Cash and cash equivalents	\$31,206,495	\$8,664,211
Accounts receivable, net of allowance for doubtful accounts of \$461,650 and \$475,080, respectively	5,423,618	5,506,472
Other receivables	806,148	464,085
Due from affiliates	-	18,314
Prepaid expenses and other current assets	282,732	269,168
Total current assets	37,718,993	14,922,250
Property and equipment, net	1,167,680	1,205,139
Restricted cash	745,117	765,058
Intangible assets, net	1,822,542	1,904,269
Goodwill	1,622,483	1,622,483
Other assets	221,979	225,358
<b>TOTAL ASSETS</b>	<b>\$43,298,794</b>	<b>\$20,644,557</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Accounts payable and accrued liabilities	\$16,212,983	\$7,883,373
Medical liabilities	19,718,135	1,768,231
Convertible note payable, net of debt issuance cost of \$107,333 and \$161,000, respectively	4,882,667	4,829,000
Lines of credit	25,000	62,500
Total current liabilities	40,838,785	14,543,104
Note payable – related party	5,000,000	5,000,000
Deferred rent liability	715,462	747,418
Deferred tax liability	83,667	83,667
<b>TOTAL LIABILITIES</b>	<b>46,637,914</b>	<b>20,374,189</b>

## COMMITMENTS AND CONTINGENCIES (see Note 8)

## STOCKHOLDERS' (DEFICIT) EQUITY

Series A Preferred stock, par value \$0.001; 5,000,000 shares authorized (inclusive of Series B Preferred stock); 1,111,111 issued and outstanding Liquidation preference of \$9,999,999	7,077,778	7,077,778
Series B Preferred stock, par value \$0.001; 5,000,000 shares authorized (inclusive of Series A Preferred stock) 555,555 issued and outstanding Liquidation preference of \$4,999,995	3,884,745	3,884,745
Common stock, par value \$0.001; 100,000,000 shares authorized, 6,033,518 shares issued and outstanding	6,033	6,033
Additional paid-in capital	26,555,514	26,331,948
Accumulated deficit	(41,266,193)	(37,654,381)
Stockholders' deficit attributable to Apollo Medical Holdings, Inc.	(3,742,123 )	(353,877 )
Non-controlling interest	403,003	624,245
Total stockholders' (deficit) equity	(3,339,120 )	270,368
<b>TOTAL LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY</b>	<b>\$43,298,794</b>	<b>\$20,644,557</b>

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

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

	Three Months Ended	
	June 30,	
	2017	2016
Net revenues	\$41,575,480	\$12,371,673
Costs and expenses		
Cost of services	40,239,642	10,133,005
General and administrative	4,889,184	3,836,475
Depreciation and amortization	155,267	164,658
Total costs and expenses	45,284,093	14,134,138
Loss from operations	(3,708,613 )	(1,762,465 )
Other (expense) income:		
Interest expense	(192,989 )	(2,659 )
Gain on change in fair value of warrant liability	-	822,222
Other income	38,657	1,971
Total other (expense) income, net	(154,332 )	821,534
Loss before benefit from income taxes	(3,862,945 )	(940,931 )
Benefit from income taxes	(29,891 )	(41,553 )
Net loss	(3,833,054 )	(899,378 )
Net loss (income) attributable to non-controlling interest	221,242	(415,879 )
Net loss attributable to Apollo Medical Holdings, Inc.	\$(3,611,812 )	\$(1,315,257 )
Net loss per share:		
Basic and diluted	\$(0.60 )	\$(0.22 )
Weighted average number of shares of common stock outstanding:		
Basic and diluted	6,033,518	5,914,826

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

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

	Three Months Ended June 30,	
	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$(3,833,054 )	\$(899,378 )
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Provision for doubtful accounts, net of recoveries	6,642	167,496
Depreciation and amortization expense	155,267	164,658
Stock-based compensation expense	223,566	247,717
Amortization of deferred financing costs	53,667	37,926
Change in fair value of warrant liability	-	(822,222 )
Changes in assets and liabilities:		
Accounts receivable	76,212	(774,087 )
Other receivables	(342,063 )	265,980
Due from affiliates	18,314	453
Prepaid expenses and other current assets	(13,564 )	(215,182 )
Restricted cash	19,941	-
Other assets	3,379	2,762
Accounts payable and accrued liabilities	8,329,610	(317,451 )
Deferred rent liability	(31,956 )	33,584
Medical liabilities	17,949,904	(158,668 )
Net cash provided by (used in) operating activities	22,615,865	(2,266,412 )
Cash flows from investing activities:		
Property and equipment acquired	(36,081 )	(163,511 )
Net cash used in investing activities	(36,081 )	(163,511 )
Cash flows from financing activities:		
Principal payments on lines of credit	(37,500 )	(12,500 )
Distributions to non-controlling interest shareholder	-	(450,000 )
Proceeds from the exercise of warrants	-	132,002
Net cash used in financing activities	(37,500 )	(330,498 )
Net increase (decrease) in cash and cash equivalents	22,542,284	(2,760,421 )
Cash and cash equivalents, beginning of period	8,664,211	9,270,010
Cash and cash equivalents, end of period	\$ 31,206,495	\$ 6,509,589

Supplementary disclosures of cash flow information:

Interest paid	\$ 584	\$ 7,142
Income taxes paid	\$ 17,591	\$ 16,400

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. (“the Company” or “ApolloMed”) and its affiliated physician groups are a physician-centric integrated population health management company working to provide coordinated, outcomes-based medical care in a cost-effective manner. Led by a management team with over a decade of experience, ApolloMed has built a company and culture that is focused on physicians providing high-quality medical care, population health management and care coordination for patients, particularly senior patients and patients with multiple chronic conditions. ApolloMed believes that the Company is well-positioned to take advantage of changes in the rapidly evolving U.S. healthcare industry, as there is a growing national movement towards more results-oriented healthcare centered on the triple aim of patient satisfaction, high-quality care and cost efficiency.

ApolloMed serves Medicare, Medicaid and health maintenance organization (“HMO”) patients, and uninsured patients, in California. The Company primarily provides services to patients who are covered predominantly by private or public insurance, although the Company derives a small portion of its revenue 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.

ApolloMed’s physician network consists of hospitalists, primary care physicians and specialist physicians primarily through ApolloMed’s owned and affiliated physician groups. ApolloMed operates through its subsidiaries, including Apollo Medical Management, Inc. (“AMM”), Pulmonary Critical Care Management, Inc. (“PCCM”), Verdugo Medical Management, Inc. (“VMM”), ApolloMed Palliative Services, LLC (“APS”), ApolloMed Accountable Care Organization, Inc. (“ApolloMed ACO”), and Apollo Care Connect, Inc. (“ApolloCare”).

Through its wholly-owned subsidiary, AMM, ApolloMed manages affiliated medical groups, which consist of ApolloMed Hospitalists (“AMH”), a hospitalist company, Maverick Medical Group, Inc. (“MMG”), AKM Medical Group, Inc. (“AKM”), Southern California Heart Centers (“SCHC”), Bay Area Hospitalist Associates, A Medical Corporation (“BAHA”) and APA ACO, Inc. (“APAACO”). Through its wholly-owned subsidiary PCCM, ApolloMed



previously managed Los Angeles Lung Center (“LALC”) (see below for deconsolidation), and through its wholly-owned subsidiary VMM, ApolloMed previously managed Eli Hendel, M.D., Inc. (“Hendel”) (see below for deconsolidation). AMM, PCCM and VMM each operate as a physician practice management company and are in the business of providing management services to physician practice corporations under long-term management service agreements, pursuant to which AMM, PCCM or VMM, as applicable, manages all non-medical services for the affiliated medical group and has exclusive authority over all non-medical decision making related to ongoing business operations.

ApolloMed has a controlling interest in APS, which owns two Los Angeles-based companies, Best Choice Hospice Care LLC (“BCHC”) and Holistic Health Home Health Care Inc. (“HCHHA”).

ApolloMed also has a controlling interest in ApolloMed ACO, which participates in the Medicare Shared Savings Program (“MSSP”), the goal of which is to improve the quality of patient care and outcomes through more efficient and coordinated approach among providers. Revenues earned by ApolloMed ACO are uncertain, and, if such amounts are payable by the Centers for Medicare & Medicaid Services (“CMS”), they will be paid on an annual basis significantly after the time earned (which may take several years), and are contingent on various factors, including achievement of the minimum savings rate as determined by MSSP for the relevant period. Such payments are earned and made on an “all or nothing” basis. The Company considers revenue, if any, under the MSSP, as contingent upon the realization of program savings as determined by CMS, and are not considered earned and therefore are not recognized as revenue until notice from CMS that cash payments are to be imminently received. CMS determined that the Company did not meet the minimum savings threshold in performance year 2015 and therefore did not receive the “all or nothing” annual shared savings payment in fiscal 2017. The Company is eligible to be considered for an “all or nothing” payment under this program for performance year 2016 (which, if it is paid, would be paid to the Company in the second or third quarter of fiscal 2018).

In January 2016, the Company formed ApolloCare, which acquired certain technology and other assets of Healarium, Inc., which provides the Company with 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.

During fiscal 2016, the Company combined the operations of AKM into those of MMG.

In November 2016, BAHA Acquisition Corp., an affiliated entity owned by the Company’s CEO and consolidated as a variable interest entity, acquired the non-controlling interest in BAHA which was previously consolidated as a variable interest entity, and continues to have its financial results consolidated with those of the Company as a variable interest entity. As part of the transaction, the Company acquired the non-controlling interest of BAHA and was reflected as an equity transaction as there was no change in control.

On December 21, 2016, the Company entered into an Agreement and Plan of Merger (the “Merger Agreement”) among the Company, Apollo Acquisition Corp., a wholly-owned subsidiary of ours (“Merger Subsidiary”), Network Medical Management, Inc. (“NMM”) and Kenneth Sim, M.D., in his capacity as the representative of the shareholders of NMM, pursuant to which NMM, one of the largest healthcare management services organizations in the United States that currently is responsible for coordinating the care for over 600,000 covered patients in Southern and Central California through a network of ten IPAs with over 4,000 contracted physicians, will merge into Merger Subsidiary (the “Merger”) and upon consummation of the Merger, NMM shareholders will receive such number of shares of the Company’s common stock (“Common Stock”) such that, after giving effect to the Merger and assuming there would be no dissenting NMM shareholders at the closing, NMM shareholders will own 82% of the total issued and outstanding shares of Common Stock at the closing of the Merger and the Company’s current stockholders will own the other 18% (the “Exchange Ratio”). Additionally, NMM agreed to relinquish its redemption rights relating to the Company’s Series A Preferred Stock that NMM owns.

On March 30, 2017, NMM, the Company and other relevant parties entered into an Amendment to the Merger Agreement (the “Merger Agreement Amendment”) to exclude, for purposes of calculating the Exchange Ratio, from “parent shares” (as defined in the Merger Agreement) 499,000 shares of Common Stock issued or issuable pursuant to a securities purchase agreement dated as of March 30, 2017, between the Company and Appliance Apex, LLC. As part the Merger Agreement Amendment, the merger consideration to be paid by the Company to NMM was amended to include warrants to purchase 850,000 shares of Common Stock at an exercise price of \$11 per share in the closing of the proposed Merger. The waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (“HSR”), with respect to the proposed Merger expired on July 7, 2017. The expiration of the HSR waiting period satisfies a condition to the closing of Merger. Consummation of the Merger, which remains subject to other conditions described in the Merger Agreement, including approval by stockholders of the Company and the shareholders of NMM, is expected to take place in the second half of calendar year 2017. On August 10, 2017, NMM and the Company filed a registration statement on form S-4 with the Securities and Exchange Commission (the “SEC”) in connection with the proposed Merger.

On January 1, 2017 and March 24, 2017, PCCM and VMM amended the management services agreements that they entered into with LALC and Hendel, respectively, and among other things, reduced the scope of services to be provided by PCCM and VMM to align with the actual course of dealing between the parties. Based on the Company’s evaluation of current accounting guidance, it was determined that the Company no longer holds an explicit or implicit variable interest in these entities, and accordingly LALC and Hendel are no longer consolidated effective January 1, 2017 and their operations are not included in the March 31, 2017 and subsequent consolidated financial statements of the Company as of such date.

On January 18, 2017, CMS announced that APAACO, which is owned 50% by ApolloMed and 50% by NMM, has been approved to participate in CMS’ Next Generation ACO Model (the “NGACO Model”). Through this new model, CMS will partner with APAACO and other accountable care organizations (“ACOs”) experienced in coordinating care for populations of patients and whose provider groups are willing to assume higher levels of financial risk and potentially achieve a higher reward under the NGACO Model. The NGACO program began on January 1, 2017. AMM, one of the Company’s wholly-owned subsidiaries, has a long-term management services agreement with

APAACO. APAACO is consolidated as a variable interest entity by AMM as it was determined that AMM is the primary beneficiary of APAACO.

In connection with the approval by CMS for APAACO to participate in the NGACO Model, CMS and APAACO have entered into a NGACO Model Participation Agreement (the "Participation Agreement"), which was last modified on December 15, 2016. The term of the Participation Agreement is for two performance years, from January 1, 2017 through December 31, 2018. CMS may offer to renew the Participation Agreement for an additional term of two performance years. Additionally, the Participation Agreement may be terminated sooner by CMS as specified therein. Under the NGACO Model, CMS grants to APAACO a pool of patients to manage (direct care and pay providers) based on a budget negotiated with CMS. APAACO is responsible to manage medical costs for these patients to receive services from doctors and medical service providers as influenced by the Company. The Company earns revenues based on the negotiated contract terms with in-network providers. The Company's profits or losses in managing the services provided by out-of-network providers are generally determined on an annual basis after reconciliation with CMS. The Company receives capitation from CMS on a monthly basis. Based on the Company's efficiency or lack thereof, the Company's profits/losses on providing such services are capped with CMS. The Company records the receipts from CMS as revenue as the Company is primarily responsible and liable for managing the costs incurred by the patients and to satisfy all provider obligations, assuming the credit risk through the arrangement with CMS, and controlling the funds, the services provided and the process by which the providers are ultimately paid.

### **Liquidity and Capital Resources**

The accompanying condensed consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business.

As shown in the accompanying unaudited condensed consolidated financial statements, the Company has incurred a net loss of approximately \$3.8 million during the three months ended June 30, 2017, and, as of June 30, 2017, has a net working capital deficit of approximately \$3.1 million and an accumulated deficit of approximately \$41.3 million. The primary source of liquidity as of June 30, 2017 is cash and cash equivalents of approximately \$31.2 million, which includes the capitation payments received from CMS.

These factors among others raise substantial doubt about the Company's ability to continue as a going concern.

The ability of the Company to continue as a going concern is dependent upon the Company's ability to increase revenue, reduce costs, attain a satisfactory level of profitability, obtain suitable and adequate financing, and further develop business. In addition, the Company may have to reduce certain overhead costs through the deferral of salaries and other means, and settle liabilities through negotiation. There can be no assurance that management's plan and attempts will be