UNITED AMERICAN HEALTHCARE CORP
Form 10-Q
January 25, 2007

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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 PERIOD ENDED DECEMBER 31, 2006

Commission File Number: 000-18839

UNITED AMERICAN HEALTHCARE CORPORATION
(Exact Name of Registrant as Specified in Charter)

MICHIGAN	38-2526913
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

300 RIVER PLACE, SUITE 4950
DETROIT, MICHIGAN 48207
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (313) 393-4571

Securities registered pursuant to Section 12(b) of the Act: NONE

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

COMMON STOCK, NO PAR VALUE
(Title of Class)

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 [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer [X]

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

THE NUMBER OF OUTSTANDING SHARES OF REGISTRANT'S COMMON STOCK AS OF JANUARY 22, 2007 IS 8,574,777

As filed with the Securities and Exchange Commission on January 25, 2007

UNITED AMERICAN HEALTHCARE CORPORATION

FORM 10-Q

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PART I. FINANCIAL INFORMATION

ITEM 1. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNITED AMERICAN HEALTHCARE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE DATA)

	DECEMBER 31, 2006 (Unaudited)	JUNE 30, 2006

ASSETS		
Current assets		
Cash and cash equivalents	$ 9,951	$ 4,316
Marketable securities	3,025	2,605
Accounts receivable -- State of Tennessee, net	1,517	1,463
Other receivables	771	384
Prepaid expenses and other	302	265
Deferred income taxes	1,914	1,950
Total current assets	17,480	10,983
Property and equipment, net	212	142
Intangible assets, net	3,452	3,452
Marketable securities	7,445	7,342
Restricted assets	2,721	2,721
Other assets	586	586
Total assets	$31,896	$25,226
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Medical claims payable	$ 156	$ 156
Accounts payable and accrued expenses	975	920
Accrued compensation and related benefits	540	732
Accrued rent	158	244
Other current liabilities	1,145	1,124
Total current liabilities	2,974	3,176
Total liabilities	2,974	3,176
Shareholders' equity		
Preferred stock, 5,000,000 shares authorized; none issued	--	--
Common stock, no par, 15,000,000 shares authorized; 8,543,277 and 7,527,023 issued and outstanding at December 31, 2006 and June 30, 2006, respectively	18,194	12,541
Paid-in-capital -- stock options	372	259
Warrants	446	--
Retained earnings	9,980	9,420
Accumulated other comprehensive loss, net of deferred federal income taxes	(70)	(170)
Total shareholders' equity	$28,922	$22,050
	$31,896	$25,226

See accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

UNITED AMERICAN HEALTHCARE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	THREE MONTHS ENDED DECEMBER 31, 2006	THREE MONTHS ENDED DECEMBER 31, 2005	SIX MONTHS ENDED DECEMBER 31, 2006	SIX MONTHS ENDED DECEMBER 31, 2005
REVENUES				
Fixed administrative fees	$3,949	$4,308	$7,962	$8,798
Interest and other income	274	183	435	201
Total revenues	4,223	4,491	8,397	8,999
EXPENSES				
Marketing, general and administrative	3,950	3,968	7,709	7,986
Depreciation and amortization	27	29	59	62
Total expenses	3,977	3,997	7,768	8,048
Earnings from operations before income taxes	246	494	629	951
Income tax expense	18	54	69	108
NET EARNINGS	$ 228	$ 440	$ 560	$ 843
NET EARNINGS PER COMMON SHARE -- BASIC				
Net earnings per common share	$ 0.03	$ 0.06	$ 0.07	$ 0.11
Weighted average shares outstanding	7,728	7,474	7,629	7,464
NET EARNINGS PER COMMON SHARE - DILUTED				
Net earnings per common share	$ 0.03	$ 0.06	$ 0.07	$ 0.11
Weighted average shares outstanding	8,172	7,604	7,970	7,593

See accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

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UNITED AMERICAN HEALTHCARE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(IN THOUSANDS)

	SIX MONTHS ENDED DECEMBER 31, 2006	SIX MONTHS ENDED DECEMBER 31, 2005
OPERATING ACTIVITIES		
Net earnings	$ 560	$ 843
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Loss on disposal of assets	--	4
Depreciation and amortization	59	62

Deferred income taxes	36	(340)
Stock compensation expense	113	155
Net changes in operating assets and liabilities	(680)	(355)
Net cash provided by operating activities	88	369
INVESTING ACTIVITIES		
Purchase of marketable securities	(423)	(6,428)
Purchase of property and equipment	(135)	(22)
Proceeds from the sale of property and equipment	6	--
Net cash used in investing activities	(552)	(6,450)
FINANCING ACTIVITIES		
Net proceeds from sale of common stock	5,816	34
Proceeds from exercise of stock options	21	--
Proceed from issuance of warrants	262	--
Net cash provided by financing activities	6,099	34
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,635	(6,047)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	4,316	9,843
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$9,951	$ 3,796
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Income taxes paid	$ --	$ 30
Non-cash financing activity		
Transaction fee paid with warrants	$ 184	--

See accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

UNITED AMERICAN HEALTHCARE CORPORATION AND SUBSIDIARIES
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-CONTINUED
DECEMBER 31, 2006 AND 2005

NOTE 1 -- BASIS OF PREPARATION

General

The accompanying unaudited condensed consolidated financial statements include the accounts of United American Healthcare Corporation and its wholly and majority-owned subsidiaries, together referred to as the "Company." All significant intercompany transactions and balances have been eliminated in consolidation.

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) and with the instructions for Form 10-Q and Rule 10-01 of Regulation S-X as they apply to interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements.

In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the financial position and results of operations have been included. The results of operations for the six month period ended December 31, 2006 are not necessarily indicative of the results of operations for the full fiscal year ending June 30, 2007. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the notes to the financial statements contained in the Company's most recent annual report on Form 10-K.

Reclassifications

Certain amounts from the June 30, 2006 and December 31, 2005 financial statements have been reclassified to conform to the presentation adopted in the December 31, 2006 financial statements.

NOTE 2 -- COMPREHENSIVE INCOME

The components of comprehensive income, net of related tax, are summarized as follows (in thousands):

	Three months ended December 31,		Six months ended December 31,	
	2006	2005	2006	2005
Net earnings	$228	$440	$560	$843
Unrealized holding gains (losses), net of deferred federal income taxes	12	35	100	(72)
Comprehensive income	$240	$475	$660	$771

UNITED AMERICAN HEALTHCARE CORPORATION AND SUBSIDIARIES
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-CONTINUED
DECEMBER 31, 2006 AND 2005

The components of accumulated other comprehensive income (loss), included in shareholders' equity at December 31, 2006 and June 30, 2006, include net unrealized holding gains and losses, net of deferred federal income taxes.

NOTE 3 -- NET EARNINGS PER COMMON SHARE

Basic net earnings per share excluding dilution have been computed by dividing net earnings by the weighted-average number of common shares outstanding for the period. Diluted earnings per share are computed using the treasury stock method for outstanding stock options.

NOTE 4 -- EFFECTIVE TAX RATE

The Company's effective tax rate for the six months ended December 31, 2006 is

11% and differs from the statutory rate of 34%. This difference is the result of the utilization of net operating loss carryforwards.

NOTE 5 -- CONTRACTUAL RISK AGREEMENT

Beginning July 1, 2002, TennCare, a State of Tennessee program that provides medical benefits to Medicaid and working uninsured recipients, implemented an 18-month stabilization program, which entailed changes to TennCare's contracts with managed care organizations ("MCOs"), including the Company's subsidiary, UAHC Health Plan of Tennessee, Inc. During that period, MCOs were generally compensated for administrative services only (commonly called "ASO"), earned fixed administrative fees, were not at risk for medical costs in excess of targets established based on various factors, were subject to increased oversight, and could incur financial penalties for not achieving certain performance requirements. Through successive contractual amendments, TennCare extended the ASO reimbursement system applicable to UAHC-TN through June 30, 2005. Through an amendment with an effective date of July 1, 2005, TennCare implemented a modified risk arrangement with all its contracted MCOs, including UAHC-TN, which are at risk for losing up to 10% of administrative fee revenue and may receive up to 15% incentive bonus revenue based on performance relative to benchmarks. UAHC-TN has received notice from TennCare that it earned additional revenue of $0.2 million and $0.2 million, respectively, for its performance under the modified risk arrangement for the first and second quarters of fiscal 2006. Such additional revenue has been recorded. UAHC-TN expects to similarly earn additional revenue of approximately $0.2 million for each of the third and fourth quarters of fiscal 2006 UAHC-TN as well as the first quarter of fiscal 2007. The Company has not recorded such earnings as of December 31, 2006, and would record such earnings in

fiscal 2007 only upon receipt of final notification thereof from TennCare. The Company also recorded an allowance of $0.3 million in fiscal 2006 for a State of Tennessee receivable because management determined the collectibility is doubtful.

NOTE 6 -- GOODWILL

Goodwill resulting from business acquisitions is carried at cost. Effective July 1, 2001, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 eliminates the amortization of goodwill, but requires that the carrying amount of goodwill be tested for impairment at least annually at the reporting unit level, as defined, and will only be reduced if it is found to be impaired or is associated with assets sold or otherwise disposed of.

Management has assessed the remaining carrying amount of previously recorded goodwill of $3.5 million and determined that such amount is not impaired in accordance with SFAS No. 142. Accordingly, there was no goodwill impairment recorded for the six months ended December 31, 2006 and 2005.

NOTE 7 -- STOCK OPTION PLANS

The Company has adopted SFAS No. 123(R), "Share-Based Payment," which is a revision of SFAS No. 123, "Accounting for Stock Based Compensation," and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees," which was issued in December 2004. The revisions are intended to provide investors and other users of financial statements with more complete and neutral financial information by requiring that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. The Company recorded stock option expense of $0.11 million and $0.16 million for the six-months ended December 31, 2006 and 2005, respectively.

Effective July 1, 2005, the Compensation Committee and Board of Directors approved the immediate termination of 124,167 non-vested stock options to the Company's directors and officers. The purpose of the termination was to enable the Company to avoid recognizing compensation expense associated with these options in future periods in its consolidated statements of earnings, as a result of SFAS No. 123(R). The pre-tax charge thereby avoided totaled approximately $650,581 which would have been recognized over fiscal years 2006 through 2008, and, accordingly, the Compensation Committee determined that the expense savings from the termination for these particular option agreements outweighed the objective of incentive compensation and retention.

NOTE 8 -- RESTRICTED ASSETS

The Company and the Department of Finance and Administration of the State of Tennessee, Bureau of TennCare ("TennCare") are parties to two escrow agreements under which the Company funded, on August 5, 2005, two escrow accounts held by TennCare at the State Treasury. One, in the amount of $2,300,000, is security for repayment to TennCare of any overpayments to UAHC-TN that may be determined by a pending audit of all UAHC-TN process claims since 2002; and the other, in the amount of $420,500, is security for any money damages that may be awarded to TennCare in the event of any future litigation between the parties in connection with certain pending investigations by state and federal authorities. The escrow accounts bear interest at a rate no lower than the prevailing commercial interest rates for savings accounts at financial institutions in Nashville, Tennessee. The escrow accounts will terminate August 5, 2007 or sooner in certain events, except if litigation is pursued by either party, in which event the escrow accounts will continue until the end of such litigation. All amounts (including interest earnings) credited to the escrow accounts will belong to the Company, except to the extent, if any, they are paid to TennCare to satisfy amounts determined to be owed to TennCare as provided in the escrow agreements. Both escrow agreements recite that TennCare does not at that time assert there has been any breach of UAHC-TN's TennCare contract and that the Company has funded the escrow accounts as a show of goodwill and good faith in working with TennCare.

NOTE 9 -- PRIVATE PLACEMENT

In a December 13, 2006 private placement transaction, the Company raised gross proceeds of $6.50 million through the sale of 1,000,000 newly issued shares of its common stock to certain institutional and other accredited investors at a price of $6.50 per share. The investors also received warrants to purchase 99,999 shares of the Company's common stock at an exercise price of $8.50 per share and expiring in December 2011. In addition, the Company agreed to pay the co-placement agents a transaction fee of $325,000 and warrants to purchase

50,000 shares of the Company's common stock at an exercise price of $9.01 per share. The net proceeds from the private placement will be used principally for start-up costs associated with the Company's Tennessee subsidiary's new Medicare Advantage contract with the Centers for Medicare & Medicaid Services, which became effective January 1, 2007. The remainder is to be used for working capital and general corporate purposes.

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UNITED AMERICAN HEALTHCARE CORPORATION AND SUBSIDIARIES
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-CONTINUED
DECEMBER 31, 2006 AND 2005

NOTE 10 -- UNAUDITED SEGMENT FINANCIAL INFORMATION

Summarized financial information for the Company's principal operations, as of and for the six month periods ended December 31, 2006 and 2005, is as follows (in thousands):

	MANAGEMENT COMPANIES (1)	HMO & MANAGED PLAN (2)	CORPORATE & ELIMINATIONS	CONSOLIDATED COMPANY
DECEMBER 31, 2006				
Revenues -- external customers	$ --	$ 7,962	$ --	$ 7,962
Revenues -- intersegment	6,979	--	(6,979)	--
Interest and other income	158	277	--	435
Total revenues	$ 7,137	$ 8,239	$ (6,979)	$ 8,397
Interest expense	$ --	$ --	$ --	$ --
Earnings (loss) from operations	(94)	654	--	560
Segment assets	66,039	16,869	(51,012)	31,896
Purchase of equipment	135	--	--	135
Depreciation and amortization	59	--	--	59
DECEMBER 31, 2005				
Revenues -- external customers	$ --	$ 8,798	$ --	$ 8,798
Revenues -- intersegment	7,958	--	(7,958)	--
Interest and other income	95	106	--	201
Total revenues	$ 8,053	$ 8,904	$ (7,958)	$ 8,999
Interest expense	$ --	$ --	$ --	$ --
Earnings from operations	463	380	--	843
Segment assets	59,496	14,938	(49,990)	24,444
Purchase of equipment	22	--	--	22
Depreciation and amortization	62	--	--	62

(1) Management Companies: United American Healthcare Corporation and United American of Tennessee, Inc.

(2) HMO and Managed Plan: UAHC Health Plan of Tennessee, Inc.

NOTE 11 -- RECENTLY ENACTED ACCOUNTING PRONOUNCEMENTS

Financial Accounting Standards Board's Final Interpretation No. 48,"Accounting for Uncertainty in Income Taxes" ("FIN 48"). This interpretation was issued on July 13, 2006. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." This interpretation provides guidance on the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Further, FIN 48 provides guidance on

derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transition. This interpretation is effective for fiscal years beginning after December 15, 2006. The cumulative effects, if any, of applying FIN 48 will be recorded as an adjustment to retained earnings as of the beginning of the period of adoption.

The Company is in the process of evaluating the expected effect of this pronouncement and is currently unable to determine the impact, if any, that it may have on its results of operations, financial position and cash flows.

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

FORWARD-LOOKING STATEMENTS

You should read the following discussion and analysis of our financial condition and results of operations together with our financial statements and the related notes and other financial data included elsewhere in this report. Some of the information contained in this discussion and analysis or set forth elsewhere in this report, including information with respect to our plans and strategy for our business, includes forward-looking statements that involve risks and uncertainties. You should review the "Cautionary Statement Regarding Forward-Looking Statements" section in Item 1 of our most recent Annual Report on Form 10-K for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

OVERVIEW

This Financial Review discusses the Company's results of operations, financial position and liquidity. This discussion should be read in conjunction with the consolidated financial statements and related notes thereto contained elsewhere in this quarterly report.

The Company provides comprehensive management and consulting services to UAHC Health Plan of Tennessee, Inc. ("UAHC-TN"), a managed care organization ("MCO") which is a wholly owned second-tier subsidiary of United American Healthcare Corporation. Since November 1993, UAHC-TN has had a contract with the State of

Tennessee for the State's "TennCare" program, to arrange for the financing and delivery of health care services on a capitated basis to eligible Medicaid beneficiaries and non-Medicaid individuals who lack access to private or employer sponsored health insurance or to another government health plan. Through successive contractual amendments, UAHC-TN's TennCare contract has been extended many times, most recently through June 30, 2007. As of December 31, 2006, there were approximately 112,000 TennCare enrollees in UAHC-TN.

On October 10, 2006, UAHC-TN entered into a contract with the Centers for Medicare & Medicaid Services (CMS) to act as a Medicare Advantage qualified organization. The contract authorizes UAHC-TN to serve members enrolled in both the Tennessee Medicaid and Medicare programs, commonly referred to as "dual-eligibles," specifically to offer a Special Needs Plan ("SNP") to its eligible members in Shelby County, Tennessee (including the City of Memphis), and to operate a Voluntary Medicare Prescription Drug Plan, both beginning January 1, 2007. The initial contract term is through December 31, 2007, after which the contract may be renewed for successive one-year periods in accordance with its terms. As of January 1, 2007, there were approximately 110 SNP enrollees in UAHC-TN.

Total revenues decreased $0.3 million (6%) to $4.2 million for the quarter ended December 31, 2006, compared to $4.5 million for the quarter ended December 31, 2005, principally due to a decline in enrollees.

Total expenses were unchanged at $4.0 million for the quarter ended December 31, 2006, compared to $4.0 million for the quarter ended December 31, 2005, principally due to the elimination of fiscal 2006 general and administrative expenses associated with the order of administrative supervision referred to under the heading "Liquidity and Capital Resources" below, which expired on December 31, 2005, offset by start-up expenses associated with the Company's Medicare Advantage SNP product.

Earnings before income taxes were $0.2 million and $0.5 million for the quarters ended December 31, 2006 and 2005, respectively. Net earnings were $0.2 million, or $0.03 per basic share, for the quarter ended December 31, 2006, compared to net earnings of $0.4 million, or $0.06 per basic share, for the quarter ended December 31, 2005. Such decrease in earnings of $0.2 million, or $0.03 per basic share, is principally due to a decrease in enrollees.

FOR THREE MONTHS ENDED DECEMBER 31, 2006 COMPARED TO
THREE MONTHS ENDED DECEMBER 31, 2005

Fixed administrative fees related to TennCare's below-described ASO program were $4.0 million for the quarter ended December 31, 2006, a decrease of $0.3 million (8%) from $4.3 million in the three-months ended December 31, 2005. Such decrease in fixed administrative fees is attributed to a decrease in membership.

Beginning July 1, 2002, TennCare implemented an 18-month stabilization program, which entailed changes to TennCare's contracts with MCOs including UAHC-TN. During that period, MCOs were generally compensated for administrative services only (commonly called "ASO"), earned fixed administrative fees, were not at risk for medical costs in excess of targets established based on various factors, were subject to increased oversight, and could incur financial penalties for not achieving certain performance requirements. Through subsequent amendments, TennCare extended the ASO reimbursement system applicable to UAHC-TN through June 30, 2005. Through an amendment with an effective date of July 1, 2005, TennCare has implemented a reduction in capitated administrative fees and has implemented a modified risk arrangement with all its contracted MCOs, including UAHC-TN, which are at risk for losing up to 10% of administrative fee revenue and may receive up to 15% incentive bonus revenue based on performance relative to benchmarks. UAHC-TN has received notice from TennCare that it earned additional revenue of $0.2 million and $0.2 million, respectively, for its performance under the modified risk arrangement for the first and second quarters of fiscal 2006. Such additional revenue was recorded in fiscal 2006. UAHC-TN expects to similarly earn additional revenue of approximately $0.2 million for each of the third and fourth quarters of fiscal 2006 as well as the first quarter of fiscal 2007. The Company would record such earnings in fiscal 2007 only upon receipt of final notification thereof from TennCare.

Marketing, general and administrative expenses were unchanged at $4.0 million for the three-months ended December 31, 2006 from $4.0 million for the three months ended December 31, 2005.

Depreciation and amortization expense were unchanged at $0.03 million for the three months ended December 31, 2006 compared to the same period in 2005.

Income tax expense was unchanged at $0.1 million for the three months ended December 31, 2006 from the three months ended December 31, 2005. The Company's effective tax rate for the three months ended December 31, 2006 is 7% and differs from the statutory rate of 34%. This difference is the result of the utilization of net operating loss carryforwards.

FOR SIX-MONTHS ENDED DECEMBER 31, 2006 COMPARED TO
SIX MONTHS ENDED DECEMBER 31, 2005

There were no medical premiums revenues in either of the six month periods ended December 31, 2006 and 2005.

Fixed administrative fees related to TennCare's below-described ASO program were $8.0 million for the six months ended December 31, 2006, a decrease of $0.8 million (10%) from $8.8 million in the six months ended December 31, 2005. Such decrease in fixed administrative fees is attributed to a decrease in membership.

Beginning July 1, 2002, TennCare implemented an 18-month stabilization program, which entailed changes to TennCare's contracts with MCOs, including UAHC-TN. During that period, MCOs were generally compensated for administrative services only (commonly called "ASO"), earned fixed administrative fees, were not at risk for medical costs in excess of targets established based on various factors, were subject to increased oversight, and could incur financial penalties for not achieving certain performance requirements. Through subsequent amendments, TennCare extended the ASO reimbursement system applicable to UAHC-TN through June 30, 2005. Through an amendment with an effective date of July 1, 2005, TennCare has implemented a reduction in capitated administrative fees and has implemented a modified risk arrangement with all its contracted MCOs, including UAHC-TN, which are at risk for losing up to 10% of administrative fee revenue and may receive up to 15% incentive bonus revenue based on performance relative to benchmarks. UAHC-TN has received notice from TennCare that it earned additional revenue of $0.2 million and $0.2 million, respectively, for its performance under the modified risk arrangement for the first and second quarters of fiscal 2006. Such additional revenue was recorded in fiscal 2006. UAHC-TN expects to similarly earn additional revenue of approximately $0.2 million for each of the third and fourth quarters of fiscal 2006 as well as the first quarter of fiscal 2007. The Company would record such earnings in fiscal 2007 only upon receipt of final notification thereof from TennCare.

Marketing, general and administrative expenses decreased $0.3 million (3%) to $7.7 million for the six months ended December 31, 2006 from $8.0 million for the six months ended December 31, 2005. The decrease was principally due to the elimination of fiscal 2006 general and administrative expenses associated with the order of administrative supervision which expired on December 31, 2005.

Depreciation and amortization expense was $0.06 million for the six months ended December 31, 2006, unchanged from $0.06 million for the six months ended December 31, 2005.

Income tax expense was $0.1 million for the six months ended December 31, 2006, unchanged from $0.1 million for the six months ended December 31, 2005. The Company's effective tax rate for the six months ended December 31, 2006 is 11% and differs from the statutory rate of 34%. This difference is the result of the utilization of net operating loss carryforwards.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2006, the Company had (i) cash and cash equivalents and short-term marketable securities of $13.0 million, compared to $6.9 million at June 30, 2006; (ii) working capital of $14.5 million, compared to working capital of $7.8 million at June 30, 2006; and (iii) a current assets-to-current liabilities ratio of 5.88-to-1, compared to 3.46-to-1 at June 30, 2006. The principal use of funds for the most recent six month period was $0.1 million for the purchase of equipment. Cash flow was $5.7 million for the six months ended December 31, 2006, compared to $(6.0) million for the comparable period a year earlier. The increase was principally due to the sale of 1,000,000 newly issued shares of common stock in the three months ended December 31, 2006.

Accounts receivable increased by $0.4 million at December 31, 2006 compared to June 30, 2006, primarily due to timing of cash receipts from TennCare.

Property, plant and equipment increased by $0.07 million at December 31, 2006 compared to June 30, 2006, due to recording depreciation of $0.06 million offset by equipment purchases of $0.14 million.

The Company's wholly owned subsidiary, UAHC-TN, had a required minimum net worth requirement using statutory accounting practices of $7.2 million at December 31, 2006. UAHC-TN had excess statutory net worth of approximately $3.9 million at December 31, 2006.

UAHC-TN's application for a commercial HMO license in Tennessee was approved on September 7, 2001. However, management is not yet actively pursuing that commercial business, due to UAHC-TN's substantially increased enrollment from members TennCare assigned from defunct other plans, together with adapting to TennCare's stabilization program and reforms.

Through an amendment with an effective date of July 1, 2005, TennCare has implemented a modified risk arrangement with all its contracted MCOs, including UAHC-TN, which are at risk for losing up to 10% of administrative fee revenue and may receive up to 15% incentive bonus revenue based on performance relative to benchmarks. TennCare also disenrolled non-medically needy adults who are not eligible for Medicaid from TennCare coverage statewide, and imposed additional benefit limits on the 396,000 adults left in the program who are eligible for Medicaid. As a result, UAHC-TN lost approximately 12,000 members beginning in the first quarter of fiscal 2006.

The Company and the Department of Finance and Administration of the State of Tennessee, Bureau of TennCare ("TennCare") are parties to two escrow agreements under which the Company funded, on August 5, 2005, two escrow accounts held by TennCare at the State Treasury. One, in the amount of $2,300,000, is security for repayment to TennCare of any overpayments to UAHC-TN that may be determined by a pending audit of all UAHC-TN process claims since 2002; and the other, in the amount of $420,500, is security for any money damages that may be awarded to TennCare in the event of any future litigation between the parties in connection with certain pending investigations by state and federal authorities. The escrow accounts bear interest at a rate no lower than the prevailing

commercial interest rates for savings accounts at financial institutions in Nashville, Tennessee. The escrow accounts will terminate August 5, 2007 or sooner in certain events, except if litigation is pursued by either party, in which event the escrow accounts will continue until the end of such litigation. All amounts (including interest earnings) credited to the escrow accounts will belong to the Company, except to the extent, if any, they are paid to TennCare to satisfy amounts determined to be owed to TennCare as provided in the escrow agreements. Both escrow agreements recite that TennCare does not at that time assert there has been any breach of UAHC-TN's TennCare contract and that the Company has funded the escrow accounts as a show of goodwill and good faith in working with TennCare.

UAHC-TN is no longer subject to the notice and order of administrative supervision that the Commissioner of the State of Tennessee's Department of Commerce and Insurance had issued to it on April 20, 2005. That notice and order expired in accordance with its terms on December 31, 2005. The State of Tennessee extended UAHC-TN's TennCare contract through June 30, 2007, by an amendment to the contract effective as of January 1, 2007.

In a December 13, 2006 private placement transaction, the Company raised gross proceeds of $6.50 million through the sale of 1,000,000 newly issued shares of its common stock to certain institutional and other accredited investors at a price of $6.50 per share. The investors also received warrants to purchase 99,999 shares of the Company's common stock at an exercise price of $8.50 per share and expiring in December 2011. In addition, the Company agreed to pay the co-placement agents a transaction fee of $325,000 and warrants to purchase 50,000 shares of the Company's common stock at an exercise price of $9.01 per share. The net proceeds from the private placement will be used principally for start-up costs associated with the Company's Tennessee subsidiary's new Medicare Advantage contract with the Centers for Medicare & Medicaid Services, which became effective January 1, 2007. The remainder is to be used for working capital and general corporate purposes.

The Company's ability to generate adequate amounts of cash to meet its future cash needs depends on a number of factors, particularly including its ability to control medical expenses associated with its Medicare Advantage Special Needs Plan and administrative costs related to the modified risk arrangement for the TennCare program and controlling corporate overhead costs. On the basis of the matters discussed above, management believes at this time that the Company has the ability to generate sufficient cash to adequately support its financial requirements through the next twelve months, and maintain minimum statutory net worth requirements of UAHC-TN.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

Our management has evaluated, with the participation of our principal executive and principal financial officers, the effectiveness of our disclosure controls and procedures as of December 31, 2006, and based on their evaluation, our principal executive and principal financial officers have concluded that these controls and procedures are effective as of December 31, 2006. There was no change in our internal controls over financial reporting identified in connection with such evaluation that occurred during our fiscal quarter ended December 31, 2006 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

Disclosure controls and procedures are our controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file and submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Internal control over financial reporting is a process designed by, or under the supervision of, our principal executive and principal financial officers, and effected by our board of directors, management and other personnel, 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 and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect our transactions and dispositions of assets, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS

10.1 United American Healthcare Corporation Supplemental Executive Retirement Plan, as amended and restated effective as of January 1, 2005, signed on

November 9, 2006.

31.1 Certifications of Chief Executive Officer pursuant to Rule 13a-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certifications of Chief Financial Officer pursuant to Rule 13a-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certifications of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

UNITED AMERICAN HEALTHCARE CORPORATION

Dated: January 25, 2007

By: /s/ William C. Brooks

William C. Brooks
Chairman, President & Chief Executive Officer

Dated: January 25, 2007

By: /s/ Stephen D. Harris

Stephen D. Harris
Executive Vice President, Chief Financial Officer & Treasurer

Exhibit Index

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Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.