UNITED AMERICAN HEALTHCARE CORP
Form 10-Q
October 30, 2007

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

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FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2007
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 OCTOBER 26, 2007 IS 8,590,666

As filed with the Securities and Exchange Commission on October 30, 2007

UNITED AMERICAN HEALTHCARE CORPORATION

FORM 10-Q

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

| | SEPTEMBER 30, 2007 | JUNE 30, |
|---|---|---|

| | (Unaudited) | 2007 |
|---|---|---|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | $ 9,872 | $ 8,932 |
| Marketable securities | 5,343 | 5,296 |
| Accounts receivable - State of Tennessee, net | 1,427 | 1,455 |
| Interest receivable | 505 | 578 |
| Other receivables | 222 | 455 |
| Prepaid expenses and other | 480 | 511 |
| Deferred income taxes | 1,950 | 1,950 |
| Total current assets | 19,799 | 19,177 |
| Property and equipment, net | 428 | 357 |
| Goodwill | 3,452 | 3,452 |
| Marketable securities | 7,540 | 7,475 |
| Restricted assets | 1,431 | 2,721 |
| Other assets | 586 | 586 |
| Total assets | $33,236 | $ 33,768 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities | | |
| Medical claims payable | $ 1,545 | $ 576 |
| Accounts payable and accrued expenses | 2,057 | 3,142 |
| Accrued compensation and related benefits | 523 | 896 |
| Accrued rent | 124 | 135 |
| Unearned revenue | -- | 279 |
| Other current liabilities | 1,072 | 1,099 |
| Total current liabilities | 5,321 | 6,127 |
| Commitments and contingencies | | |
| Total liabilities | 5,321 | 6,127 |
| Shareholders' equity | | |
| Preferred stock, 5,000,000 shares authorized; none issued | -- | -- |
| Common stock, no par, 15,000,000 shares authorized; 8,590,666 and 8,588,211 issued and outstanding at September 30, 2007 and June 30, 2007, respectively | 18,333 | 18,327 |
| Paid in capital-stock options | 736 | 607 |
| Warrants | 444 | 444 |
| Retained earnings | 8,376 | 8,303 |
| Accumulated other comprehensive income (loss), net of deferred federal income taxes | 26 | (40) |
| Total shareholders' equity | $27,915 | $ 27,641 |
| Total | $33,236 | $ 33,768 |

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 SEPTEMBER 30, | |
|---|---|---|
| | 2007 | 2006 |
| REVENUES | | |
| Fixed administrative fees | $3,706 | $4,013 |
| Medical premiums | 2,082 | -- |
| Interest and other income | 400 | 161 |
| Total revenues | 6,188 | 4,174 |
| EXPENSES | | |
| Medical services | 1,864 | -- |
| Marketing, general and administrative | 4,191 | 3,759 |
| Depreciation and amortization | 40 | 32 |
| Total expenses | 6,095 | 3,791 |
| Earnings from operations before income taxes | 93 | 383 |
| Income tax expense | 20 | 51 |
| NET EARNINGS | $ 73 | $ 332 |
| NET EARNINGS PER COMMON SHARE - BASIC | | |
| Net earnings per common share | $ 0.01 | $ 0.04 |
| Weighted average shares outstanding | 8,589 | 7,531 |
| NET EARNINGS PER COMMON SHARE - DILUTED | | |
| Net earnings per common share | $ 0.01 | $ 0.04 |
| Weighted average shares outstanding | 8,800 | 7,725 |

See accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.



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

THREE MONTHS ENDED
SEPTEMBER 30,

| | 2007 | 2006 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Net earnings | $ 73 | $ 332 |
| Adjustments to reconcile net earnings to net cash used in operating activities: | | |
| Depreciation and amortization | 40 | 32 |
| Stock compensation | 129 | 22 |
| Change in restricted assets | 1,290 | -- |
| Net changes in other operating assets and liabilities | (441) | (499) |
| Net cash provided by (used in) operating activities | 1,091 | (113) |
| INVESTING ACTIVITIES | | |
| Proceeds from maturity of marketable securities | 1,500 | -- |
| Purchase of marketable securities | (1,546) | (12) |
| Purchase of property and equipment | (111) | (99) |
| Proceeds from sale of property and equipment | -- | 6 |
| Net cash used in investing activities | (157) | (105) |
| FINANCING ACTIVITIES | | |
| Proceeds from the exercise of stock options | 6 | 8 |
| Net cash provided by financing activities | 6 | 8 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 940 | (210) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 8,932 | 4,316 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | $ 9,872 | $ 4,106 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Income taxes paid | $ 20 | $ -- |
| Unrealized gain on investment | 66 | 88 |

See accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.



UNITED AMERICAN HEALTHCARE CORPORATION AND SUBSIDIARIES
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2007 AND 2006

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 three month period ended September 30, 2007 are not necessarily indicative of the results of operations for the full fiscal year ending June 30, 2008. 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 September 30, 2006 financial statements have been reclassified to conform to presentation adopted in the September 30, 2007 financial statements.

NOTE 2 - COMPREHENSIVE INCOME

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

| | Three months ended September 30, | |
|---|---|---|
| | 2007 | 2006 |
| Net earnings | $ 73 | $332 |
| Net unrealized holding gains, net of deferred federal income taxes | 66 | 88 |
| Comprehensive income | $139 | $420 |



UNITED AMERICAN HEALTHCARE CORPORATION AND SUBSIDIARIES
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-CONTINUED
SEPTEMBER 30, 2007 AND 2006

The components of accumulated other comprehensive income, included in shareholders' equity at September 30, 2007 and June 30, 2007, 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 three months ended September 30, 2007 is 22% and differs from the statutory rate of 34%. This difference is primarily the result of the utilization of net operating loss carryforwards.

In July 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48 ("FIN 48"), Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109 which clarifies the accounting for uncertainty in tax positions. This interpretation requires that the Company recognize in the financial statements, the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions of FIN 48 are effective as of the beginning of the Company's 2008 fiscal year, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. The Company adopted FIN 48 effective July 1, 2007. There was no adjustment required to retained earnings as the Company was not aware of any material tax position taken or expected to be taken in a tax return in which the tax law is subject to varied interpretations.





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.("UAHC-TN"). During that period, MCOs were generally compensated for administrative services only (commonly called "ASO"), earned fixed administrative fees and were not at risk for medical costs. Through successive contractual amendments, TennCare extended the ASO reimbursement system applicable to UAHC-TN, through several contractual amendments effective through June 30, 2005. Through an amendment with an effective date of July 1, 2005, TennCare implemented a modified risk arrangement ("MRA") with all its contracted MCOs, including UAHC-TN, which are at risk for losing up to 10% of administrative fee revenue and potentially could receive up to 15% incentive bonus revenue based on performance relative to benchmarks. UAHC-TN received notice from TennCare that it earned additional revenue of $0.2 million, $0.2 million, and $0.5 million, respectively, for its performance under the modified risk arrangement for the first, second and fourth quarters of fiscal 2006. Such additional revenue has been recorded. UAHC-TN expects to similarly earn additional revenue for the third quarter of fiscal 2006 and additional revenues for fiscal 2007. The Company would record such earnings only upon receipt of final notification thereof from TennCare. Effective July 1, 2007, the evaluation period for the MRA was changed from quarterly to annually, and the incentive bonus pool was adjusted to 20% of administrative fee revenue.

NOTE 6 - 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 $0.13 million and $0.02 million for the three months ended September 30, 2007 and 2006, respectively.





NOTE 7 - 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 original 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. The other escrow account, in the original 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. TennCare and the Company reached agreement in August 2007 to amend both escrow agreements. Under both amendments the escrow accounts will terminate 30 days after the conclusion of such investigations, unless the parties earlier agree otherwise. In addition, under one of the amendments, the Company received $1,289,851 plus accumulated interest earnings from the larger escrow account, leaving $1,010,149 in that account in recognition of the potential level of claims' inaccuracy found on preliminary review by the Tennessee Department of Commerce and Insurance. The escrow accounts bear interest at a rate no lower than the prevailing commercial interest rate for savings accounts at financial institutions in Nashville, Tennessee. 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 8 - 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 uses of the net proceeds from the private placement are 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, and also for working capital and general corporate purposes.

NOTE 9 - MEDICARE CONTRACT

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 October 15, 2007 there were approximately 795 enrollees in UAHC-TN's Medicare Advantage Special Needs Plan ("our MA-SNP").





NOTE 10 - UNAUDITED SEGMENT FINANCIAL INFORMATION

Summarized financial information for the Company's principal operations, as of and for the three month periods ended September 30, 2007 and 2006, is as follows (in thousands):

| | MANAGEMENT COMPANIES (1) | HMO & MANAGED PLAN (2) | CORPORATE & ELIMINATIONS | CONSOLIDATED COMPANY |
|---|---|---|---|---|
| SEPTEMBER 30, 2007 | | | | |
| Revenues - external customers | $ -- | $ 5,788 | $ -- | $ 5,788 |
| Revenues - intersegment | 3,447 | --- | (3,447) | -- |
| Interest and other income | 129 | 271 | -- | 400 |
| Total revenues | $ 3,576 | $ 6,059 | $ (3,447) | $ 6,188 |
| Interest expense | $ -- | $ -- | $ -- | $ -- |
| Earnings (loss) from operations | (376) | 449 | -- | 73 |
| Segment assets | 64,710 | 19,332 | (50,806) | 33,236 |
| Purchase of equipment | 111 | -- | -- | 111 |
| Depreciation and amortization | 40 | -- | -- | 40 |
| SEPTEMBER 30, 2006 | | | | |
| Revenues - external customers | $ -- | $ 4,013 | $ -- | $ 4,013 |

| | | | | |
|---|---|---|---|---|
| Revenues - intersegment | 3,518 | -- | (3,518) | -- |
| Interest and other income | 61 | 100 | -- | 161 |
| Total revenues | $ 3,579 | $ 4,113 | $ (3,518) | $ 4,174 |
| Interest expense | $ -- | $ -- | $ -- | $ -- |
| Earnings from operations | 3 | 329 | -- | 332 |
| Segment assets | 59,863 | 16,877 | (51,290) | 25,450 |
| Purchase of equipment | 99 | -- | -- | 99 |
| Depreciation and amortization | 32 | -- | -- | 32 |

(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

The following are new accounting standards and interpretations that may be applicable in the future to the Company:

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("FASB 157"). FASB 157 enhances existing guidance for measuring assets and liabilities using fair value. Prior to the issuance of FASB 157, guidance for applying fair value was incorporated in several accounting pronouncements. FASB 157 provides a single definition of fair value, together with a framework for measuring it, and requires additional disclosure about the use of fair value to measure assets and liabilities. FASB 157 also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under FASB 157, fair value measurements are disclosed by level within that hierarchy. While FASB 157 does not add any new fair value measurements, it does change current practice. Changes to practice include: (1) a requirement for an entity to include its own credit standing in the measurement of its liabilities; (2) a modification of the transaction price presumption; (3) a prohibition on the use of block discounts when valuing large blocks of securities for broker-dealers and investment companies; and (4) a requirement to adjust the value of restricted stock for the effect of the restriction even if the restriction lapses within one year. FASB 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company has not determined the impact of adopting FASB 157 on its financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities," ("FASB 159"). This statement permits entities to choose to measure many financial instruments and certain other items at fair value. An entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. This statement is effective as of the beginning of an entity's first fiscal year that begins after

November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of FASB No. 157. The Company is continuing to evaluate the impact of this statement.



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 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 December 31, 2007. As of September 30, 2007, there were approximately 107,104 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 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 October 15, 2007 there were approximately 795 enrollees in UAHC-TN's Medicare Advantage Special Needs Plan ("our MA-SNP").

Earnings before income taxes were $0.1 million and $0.4 million for the first fiscal quarters ended September 30, 2007 and 2006, respectively. Net earnings were $0.1 million, or $0.01 per basic share, for the quarter ended September 30, 2007, compared to net earnings of $0.3 million, or $0.04 per basic share, for the quarter ended September 30, 2006. Such decrease in earnings of $0.2 million, or $0.03 per basic share, is principally due to a decrease in Tenncare enrollees and increase in marketing costs relating to our MA-SNP offset by the increase in our MA-SNP revenues.

FOR THREE MONTHS ENDED SEPTEMBER 30, 2007 COMPARED TO
THREE MONTHS ENDED SEPTEMBER 30, 2006

Total revenues increased $2.0 million (48%) to $6.2 million for the first fiscal quarter ended September 30, 2007, compared to $4.2 million for the quarter ended September 30, 2006. The increase was principally due to an increase in our MA-SNP revenues offset by the decrease in TennCare revenues.

Fixed administrative fees related to TennCare's below-described ASO program were $3.7 million for the quarter ended September 30, 2007, a decrease of $0.3 million (8%) from $4.0 million in the three months ended September 30, 2006. The decrease is principally due to a decrease in TennCare enrollees.

Our MA-SNP medical premiums revenues were $2.1 million for the three months ended September 30, 2007. Because our MA-SNP started effective January 1, 2007, there were no MA-SNP medical premiums for the three months ended September 30, 2006.

Our MA-SNP per member per month ("PMPM") premium rate for the three months ended September 30, 2007, was $1,161 for the three months ended September 30, 2007.

Total expenses increased $2.3 million (61%) to $6.1 million for the quarter ended September 30, 2007, compared to $3.8 million for the quarter ended September 30, 2006, principally due to medical expenses related to our MA-SNP, which was launched in January 2007.

Medical expenses for our MA-SNP were $1.9 million for the three months ended September 30, 2007. There were no medical expenses for our MA-SNP for the comparable quarter a year earlier, because it had not yet started. The percentage of such medical expenses to medical premiums revenues for our MA-SNP -- the medical loss ratio ("MLR") -- was 89% for the three-month period ended September 30, 2007.

Marketing, general and administrative expenses increased $0.4 million (11%) to $4.2 million for the three months ended September 30, 2007 from $3.8 million for the three months ended September 30, 2006. The increase was principally due to additional marketing costs related to our MA-SNP.

Depreciation and amortization expense was $0.04 million for the three months ended September 30, 2007, a slight increase from $0.03 million for the three months ended September 30, 2006.



Income tax expense was $0.02 million for the three months ended September 30, 2007, a decrease from $0.05 million for the three months ended September 30, 2006. The Company's effective tax rate for the three months ended September 30, 2007 is 22% and differs from the statutory rate of 34%. This difference is primarily the result of the utilization of net operating loss carryforwards.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2007, the Company had (i) cash and cash equivalents and short-term marketable securities of $15.2 million, compared to $14.2 million at June 30, 2007; (ii) working capital of $14.5 million, compared to working capital of $13.1 million at June 30, 2007; and (iii) a current assets-to-current liabilities ratio of 3.72 to-1, compared to 3.13-to-1 at June 30, 2007. Net cash provided by operating activities of $1.1 million was principally due to the receipt of $1.3 million related to restricted assets returned to us from an escrow account funded in August 2005. See Note 7 to our Unaudited Condensed Consolidated Financial Statements, in Item 1 above for additional information.

Cash flow was $0.9 million for the three months ended September 30, 2007, compared to $(0.2) million for the comparable period a year earlier. The increase was principally due to the receipt of $1.3 million from related to restricted assets as discussed above.

Accounts receivable from the state of Tennesee decreased by $0.03 million at September 30, 2007 compared to June 30, 2007, primarily due to timing of cash receipts from TennCare.

Property, plant and equipment increased by $0.07 million at September 30, 2007 compared to June 30, 2006, due to recording depreciation of $0.03 million offset by equipment purchases of $0.1 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 September 30, 2007. UAHC-TN had excess statutory net worth of approximately $6.4 million at September 30, 2007.

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.("UAHC-TN"). During that period, MCOs were generally compensated for administrative services only (commonly called "ASO"), earned fixed administrative fees and were not at risk for medical costs. Through successive contractual amendments, TennCare extended the ASO reimbursement system applicable to UAHC-TN, through several contractual amendments effective through June 30, 2005. Through an amendment with an effective date of July 1, 2005, TennCare implemented a modified risk arrangement ("MRA") with all its contracted MCOs, including UAHC-TN, which are at risk for losing up to 10% of administrative fee revenue and potentially could receive up to 15% incentive bonus revenue based on performance relative to benchmarks.

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UAHC-TN received notice from TennCare that it earned additional revenue of $0.2 million, $0.2 million, and $0.5 million, respectively, for its performance under the modified risk arrangement for the first, second and fourth quarters of fiscal 2006. Such additional revenue has been recorded UAHC-TN expects to similarly earn additional MRA revenue for the third quarter of fiscal 2006 and additional MRA revenues for fiscal 2007. The Company will record such and any other additional MRA earnings only upon receipt of final notification thereof from TennCare. Effective July 1, 2007, the evaluation period for the MRA was changed from quarterly to annually, and the incentive bonus pool was adjusted to 20% of administrative fee revenue.

The Company and 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 original 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. The other escrow account, in the original 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. TennCare and the Company reached agreement in August 2007 to amend both escrow agreements. Under both amendments the escrow accounts will terminate 30 days after the conclusion of such investigations, unless the parties earlier agree otherwise. In addition, under one of the amendments, the Company received $1,289,851 plus accumulated interest earnings from the larger escrow account, leaving $1,010,149 in that account in recognition of the potential level of claims' inaccuracy found on preliminary review by the Tennessee Department of Commerce and Insurance. The escrow accounts bear interest at a rate no lower than the prevailing commercial interest rate for savings accounts at financial institutions in Nashville, Tennessee. 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.

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 uses of the net proceeds from the private placement are 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, and also for working capital and general corporate purposes.



## 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 September 30, 2007, and based on their evaluation, our principal executive and principal financial officers have concluded that these controls and procedures are effective as of September 30, 2007. There was no change in our internal controls over financial reporting identified in connection with such evaluation that occurred during our fiscal quarter ended September 30, 2007 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 1. LEGAL PROCEEDINGS

As we previously reported in our most recent Annual Report on Form 10-K, in the consolidated two cases collectively called "In re United American Healthcare Corporation Securities Litigation," Master File No. 2:2005cv72112(LPZ/RSW), the United States District Court for the Eastern District of Michigan dismissed the consolidated complaint against the Company and all other defendants with prejudice on January 30, 2007. On March 1, 2007, the plaintiffs appealed the dismissal order to the U.S. Court of Appeals for the Sixth Circuit, and both sides have completed the filings of their appellate briefs.

ITEM 6. EXHIBITS

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.

UNITED AMERICAN HEALTHCARE CORPORATION

Dated: October 30, 2007

By: /s/ William C. Brooks

William C. Brooks
Chairman, President & Chief
Executive Officer

Dated: October 30, 2007

By: /s/ Stephen D. Harris

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