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UNITED AMERICAN HEALTHCARE CORP

Form 10-Q

May 13, 2008

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

FORM 10-Q

(MARK ONE)

☒ [X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2008

Or

☐ [] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 01-11638

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

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

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

None

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

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, a non-accelerated filer, or a smaller reporting company. See
the definitions of "large accelerated filer," "accelerated filer" and "smaller

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reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒

Smaller reporting company ☐

(Do not check if a smaller reporting company)

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

THE NUMBER OF OUTSTANDING SHARES OF REGISTRANT'S COMMON STOCK AS OF MAY 12, 2008 IS 8,734,214

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As filed with the Securities and Exchange Commission on May 13, 2008

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)

	MARCH 31, 2008	JUNE 30, 2007
	-----	-----
	(Unaudited)	
ASSETS		
Current assets		
Cash and cash equivalents	\$10,399	\$ 8,932
Marketable securities	8,774	5,296
Accounts receivable - State of Tennessee, net	1,129	1,455
Interest receivable	439	578
Other receivables	292	455
Prepaid expenses and other	251	511
Deferred income taxes	460	1,950
	-----	-----
Total current assets	21,744	19,177
Property and equipment, net	519	357
Goodwill	--	3,452
Marketable securities	7,628	7,475
Restricted assets	421	2,721
Other assets	586	586
	-----	-----
Total assets	\$30,898	\$33,768
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Medical claims payable	\$ 3,102	\$ 576
Accounts payable and accrued expenses	938	3,142
Accrued compensation and related benefits	584	896
Accrued rent	101	135
Unearned revenue	--	279
Other current liabilities	1,175	1,099
	-----	-----
Total current liabilities	5,900	6,127
Commitments and contingencies		
Total liabilities	5,900	6,127
	-----	-----
Shareholders' equity		
Preferred stock, 5,000,000 shares authorized; none issued	--	--
Common stock, no par, 15,000,000 shares authorized; 8,734,214 and 8,588,211 issued and outstanding at March 31, 2008 and June 30, 2007, respectively	18,558	18,327
Paid in capital - stock options	1,074	607
Warrants	444	444
Retained earnings	4,862	8,303
Accumulated other comprehensive income (loss), net of deferred federal income taxes	60	(40)
	-----	-----
Total shareholders' equity	24,998	27,641
	=====	=====
Total liabilities and shareholders' equity	\$30,898	\$33,768
	=====	=====

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See accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

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

	THREE MONTHS ENDED MARCH 31,		NINE MONTHS ENDED MARCH 31,	
	2008	2007	2008	2007
REVENUES				
Fixed administrative fees	\$ 3,612	\$3,833	\$10,995	\$11,795
Variable administrative fees	1,438	--	1,718	--
Medical premiums	2,900	372	7,689	372
Interest and other income	325	345	1,109	780
	-----	-----	-----	-----
Total revenues	8,275	4,550	21,511	12,947
EXPENSES				
Medical expenses	2,538	325	6,953	325
Marketing, general and administrative	4,483	4,228	12,763	11,937
Goodwill impairment	3,452	--	3,452	--
Depreciation and amortization	58	27	149	86
	-----	-----	-----	-----
Total expenses	10,531	4,580	23,317	12,348
	-----	-----	-----	-----
Earnings (loss) from operations before income taxes	(2,256)	(30)	(1,806)	599
Income tax expense	1,514	9	1,635	78
	-----	-----	-----	-----
NET EARNINGS (LOSS)	\$ (3,770)	\$ (39)	\$ (3,441)	\$ 521
	=====	=====	=====	=====
NET EARNINGS (LOSS) PER COMMON SHARE - BASIC				
Net earnings (loss) per common share	\$ (0.43)	\$ (0.00)	\$ (0.40)	\$ 0.07
	=====	=====	=====	=====
Weighted average shares outstanding	8,706	8,579	8,643	7,941
	=====	=====	=====	=====
NET EARNINGS (LOSS) PER COMMON SHARE - DILUTED				
Net earnings (loss) per common share	\$ (0.43)	\$ (0.00)	\$ (0.40)	\$ 0.06
	=====	=====	=====	=====
Weighted average shares outstanding	8,706	8,579	8,643	8,284
	=====	=====	=====	=====

See accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

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UNITED AMERICAN HEALTHCARE CORPORATION AND SUBSIDIARIES

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) (IN THOUSANDS)

	NINE MONTHS ENDED MARCH 31,	
	2008	2007
OPERATING ACTIVITIES		
Net earnings (loss)	\$ (3,441)	\$ 521
Adjustments to reconcile net (loss) earnings to net cash provided by operating activities:		
Depreciation and amortization	149	86
Goodwill impairment	3,452	--
Stock compensation	467	170
Deferred income taxes	1,490	36
Stock awards	108	108
Net changes in other operating assets and liabilities	2,961	(368)
	-----	-----
Net cash provided by operating activities	5,186	553
INVESTING ACTIVITIES		
Proceeds from maturity of marketable securities	12,509	--
Purchase of marketable securities	(16,040)	(4,439)
Purchase of property and equipment	(311)	(278)
Proceeds from sale of property and equipment	--	6
	-----	-----
Net cash used in investing activities	(3,842)	(4,711)
FINANCING ACTIVITIES		
Net proceeds from sale of common stock	--	5,721
Proceeds from exercise of stock options	123	124
Proceeds from the issuance of warrants	--	260
	-----	-----
Net cash provided by financing activities	123	6,105
	-----	-----
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,467	1,947
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	8,932	4,316
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 10,399	\$ 6,263
	=====	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Income taxes paid	\$ --	\$ --
Transaction fee paid with warrants	--	184
Unrealized gain on investments	100	130

See accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

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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 nine-month period ended March 31, 2008 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.

NOTE 2 - COMPREHENSIVE INCOME (LOSS)

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

	Three months ended March 31,		Nine months ended March 31,	
	2008	2007	2008	2007
Net earnings (loss)	\$ (3,770)	\$ (39)	\$ (3,441)	\$521
Unrealized holding gains, net of deferred federal income taxes	7	30	100	130
Comprehensive income (loss)	\$ (3,763)	\$ (9)	\$ (3,341)	\$651

UNITED AMERICAN HEALTHCARE CORPORATION AND SUBSIDIARIES NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-CONTINUED MARCH 31, 2008 AND 2007

The components of accumulated other comprehensive income, included in shareholders' equity at March 31, 2008 and June 30, 2007, include net unrealized holding gains and losses, net of deferred federal income taxes.

NOTE 3 - NET EARNINGS (LOSS) PER COMMON SHARE

Basic net earnings (loss) per share excluding dilution have been computed by dividing net earnings (loss) by the weighted-average number of common shares

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outstanding for the period. Diluted earnings (loss) per share are computed using the treasury stock method for outstanding stock options and warrants. For the three and nine months ended March 31, 2008, and the three months ended March 31, 2007, the Company incurred a net loss. Accordingly, the anti-dilutive impact of the effect of stock options and warrants is not shown.

NOTE 4 - INCOME TAXES

Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes" requires that companies assess whether valuation allowances against their deferred tax assets are adequate based on the consideration of all available evidence. The Company's valuation allowance has been increased given that it's subsidiary, UAHC Health Plan of Tennessee, Inc. ("UAHC-TN"), will cease providing managed care services in the TennCare West Grand Region of Tennessee when its present TennCare contract expires as further discussed in Note 11. In the third quarter of fiscal 2008, the Company recorded deferred tax expense of \$1.5 million.

The Company's effective tax rate for the nine months ended March 31, 2008 is (91)% and differs from the statutory rate of 34%. This difference is primarily the result of a change in the valuation allowance as discussed above and an impairment charge against goodwill, which is not deductible for tax purposes.

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.

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UNITED AMERICAN HEALTHCARE CORPORATION AND SUBSIDIARIES NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-CONTINUED MARCH 31, 2008 AND 2007

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-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. 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

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performance relative to benchmarks (through June 30, 2007). UAHC-TN received notice from TennCare that it earned additional revenue of \$1.1 million for its performance under the MRA for fiscal 2006, representing a 7% bonus revenue payout. Such additional revenue has been recorded, of which \$0.8 million was recorded in fiscal 2007, and of which \$0.3 million was recorded in the second quarter of fiscal 2008. UAHC-TN also earned and received additional revenue of \$1.4 million for fiscal 2007, representing a 9% bonus revenue payout, and the Company has recorded such additional MRA earnings in the third quarter of fiscal 2008, when UAHC-TN was notified by TennCare of the amount. 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.

UAHC-TN's TennCare members are expected to transfer to other managed care organizations on November 1, 2008, after which UAHC-TN will perform its remaining contractual obligations through its TennCare contract expiration date (which it expects will be extended to June 30, 2009 from the current June 30, 2008 expiration date). Revenue under this contract represented 59% and 61% of total revenues for the nine and three months ended March 31, 2008, respectively. As discussed in Note 11, UAHC-TN will cease providing managed care services as a TennCare contractor when its present TennCare contract expires.

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UNITED AMERICAN HEALTHCARE CORPORATION AND SUBSIDIARIES NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-CONTINUED MARCH 31, 2008 AND 2007

NOTE 6 - GOODWILL

Goodwill resulting from business acquisitions has been carried at cost. Effective July 1, 2001, the Company adopted 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 evaluates the carrying value of goodwill quarterly. Management has assessed the remaining carrying amount of previously recorded goodwill of \$3.5 million and determined that such amount has been impaired in accordance with SFAS No. 142 as a result of UAHC-TN's ceasing to provide managed care services in the TennCare West Grand Region of Tennessee when its present TennCare contract will expire, as further discussed in Note 11. Accordingly, goodwill impairment was recorded for \$3.5 million.

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 \$0.5 million and \$0.2 million for the nine months ended March 31, 2008 and 2007, respectively.

NOTE 8 - RESTRICTED ASSETS

Under two escrow agreements between the Company and TennCare on August 5, 2005

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the Company funded two escrow accounts held by TennCare at the State Treasury. Both escrow agreements recited that TennCare did not assert there had been any breach of UAHC-TN's TennCare contract and that the Company funded the escrow accounts as a show of goodwill and good faith in working with TennCare.

The larger escrow account, which has expired was in the original amount of \$2,300,000 and was security for repayment to TennCare of any overpayments to UAHC-TN that might be determined by an audit of all UAHC-TN process claims since 2002. In August 2007, the Company received \$1,289,851 plus accumulated interest earnings back from that account. In November 2007, the remaining \$1,010,149 account balance was paid to TennCare for claims discrepancies found in the review by the Tennessee Department of Commerce and Insurance.

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UNITED AMERICAN HEALTHCARE CORPORATION AND SUBSIDIARIES NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-CONTINUED MARCH 31, 2008 AND 2007

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. The escrow account will terminate 30 days after the conclusion of such investigations, unless the parties earlier agree otherwise. The escrow account bears 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 account 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 agreement.

NOTE 9 - PRIVATE PLACEMENT

In a December 13, 2006 private placement transaction, the Company raised gross proceeds of \$6.5 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 have been and are principally for start-up costs associated with the Company's Tennessee subsidiary's Medicare Advantage contract with the Centers for Medicare & Medicaid Services and also for working capital and general corporate purposes.

NOTE 10 - 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 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 current contract term is through December 31, 2008, after which the contract may be renewed for successive one-year periods in accordance with its terms. As of May 1, 2008, there were approximately 859 enrollees in UAHC-TN's Medicare Advantage Special Needs Plan.

UNITED AMERICAN HEALTHCARE CORPORATION AND SUBSIDIARIES
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-CONTINUED
MARCH 31, 2008 AND 2007

NOTE 11-SUBSEQUENT EVENT

On April 22, 2008, the Department of Finance and Administration of the State of Tennessee, Bureau of TennCare ("TennCare"), disclosed its decision to award new TennCare contracts to two named organizations, not including the Company's subsidiary, UAHC-TN, as the culmination of TennCare's selection process pursuant to its Request for Proposals for managed care services to be provided in the West Grand Region of Tennessee. Consequently, UAHC-TN's TennCare members are expected to transfer to other managed care organizations on November 1, 2008, after which UAHC-TN will perform its remaining contractual obligations through its TennCare contract expiration date (which it expects will be extended to June 30, 2009). Management believes that the discontinuance of the TennCare contract will have material impact on the Company's operations.

NOTE 12 - UNAUDITED SEGMENT FINANCIAL INFORMATION

Summarized financial information for the Company's principal operations, as of and for the nine-month periods ended March 31, 2008 and 2007, is as follows (in thousands):

	MANAGEMENT COMPANIES (1)	HMO & MANAGED PLAN (2)	CORPORATE & ELIMINATIONS	CONSOLIDATED COMPANY
	-----	-----	-----	-----
NINE MONTHS ENDED MARCH 31, 2008				
Revenues - external customers	\$ --	\$20,402	\$ --	\$20,402
Revenues - intersegment	12,315	--	(12,315)	--
Interest and other income	350	759	--	1,109
	-----	-----	-----	-----
Total revenues	\$12,665	\$21,161	\$ (12,315)	\$21,511
	=====	=====	=====	=====
Interest expense	\$ --	\$ --	\$ --	\$ --
Earnings (loss) from operations	(4,388)	947	--	(3,441)
Cash	4,495	5,904	--	10,399
Marketable securities - current	3,915	4,859	--	8,774
Segment assets	64,125	21,061	(54,288)	30,898
Purchase of equipment	311	--	--	311
Depreciation and amortization	149	--	--	149
	-----	-----	-----	-----
NINE MONTHS ENDED MARCH 31, 2007				
Revenues - external customers	\$ --	\$12,167	\$ --	\$12,167
Revenues - intersegment	10,374	--	(10,374)	--
Interest and other income	309	471	--	780
	-----	-----	-----	-----
Total revenues	\$10,683	\$12,638	\$ (10,374)	\$12,947
	=====	=====	=====	=====
Interest expense	\$ --	\$ --	\$ --	\$ --
Earnings (loss) from operations	(521)	1,042	--	521
Cash	3,554	2,709	--	6,263
Marketable securities - current	4,011	3,030	--	7,041

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Segment assets	66,205	17,850	(51,615)	32,440
Purchase of equipment	278	--	--	278
Depreciation and amortization	86	--	--	86

- (1) Management Companies: United American Healthcare Corporation and United American of Tennessee, Inc.
- (2) HMO and Managed Plan: UAHC Health Plan of Tennessee, Inc.

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UNITED AMERICAN HEALTHCARE CORPORATION AND SUBSIDIARIES NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-CONTINUED MARCH 31, 2008 AND 2007

NOTE 13 - 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 what had been current practice. Such changes 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. FASB 159 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 that the entity also elects to apply the provisions of FASB 157. The Company is continuing to evaluate the impact of this statement.

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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" in the first paragraph of Item 1A 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, Bureau of TennCare ("TennCare"), 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. As of March 31, 2008, there were approximately 100,185 TennCare enrollees in UAHC-TN.

On April 22, 2008 we learned that UAHC-TN will cease providing managed care services as a TennCare contractor when its present TennCare contract expires. (See Note 11 to our Unaudited Condensed Consolidated Financial Statements in Item 1 above.) UAHC-TN's TennCare members are expected to transfer to other managed care organizations on November 1, 2008, after which UAHC-TN will perform its remaining contractual obligations through its TennCare contract expiration date (which it expects will be extended to June 30, 2009 from the current June 30, 2008 expiration date). Revenue under this contract represented 59% and 61% of the Company's total revenues for the nine and three months ended March 31, 2008, respectively.

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

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Prescription Drug Plan, both beginning January 1, 2007. The contract term is through December 31, 2008, after which the contract may be renewed for successive one-year periods in accordance with its terms. As of May 1, 2008 there were approximately 859 enrollees in UAHC TN's Medicare Advantage Special Needs Plan ("our MA-SNP").

FOR THE THREE MONTHS ENDED MARCH 31, 2008 COMPARED TO THREE MONTHS ENDED MARCH 31, 2007

Total revenues increased \$3.7 million (80%) to \$8.3 million for the three months ended March 31, 2008, compared to \$4.6 million for the three months ended March 31, 2007. The increase was principally due to an increase in our MA-SNP revenues and variable administrative fees offset by a decrease in TennCare revenues primarily due to a decrease in TennCare enrollees.

Fixed administrative fees related to TennCare's ASO program (as described under the heading "Liquidity and Capital Resources" below) were \$3.6 million for the three months ended March 31, 2008, a decrease of \$0.2 million (5%) from \$3.8 million for the three months ended March 31, 2007. The decrease is principally due to a decrease in TennCare enrollees.

Variable administrative fees resulting from TennCare's Modified Risk Arrangement ("MRA") were \$1.4 million for the three months ended March 31, 2008. There were no variable administrative fees for the three months ended March 31, 2007. Under the MRA, UAHC-TN is 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 (through June 30, 2007). The \$1.4 million additional MRA revenue recorded in the third quarter of fiscal 2008 relates to fiscal year 2007. 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.

Our MA-SNP medical premiums revenues were \$2.9 million for the three months ended March 31, 2008 compared to \$0.4 million for the three months ended March 31, 2007. Because our MA-SNP started effective January 1, 2007, the increase of \$2.5 million is attributable to the increase in MA-SNP enrollees.

Our MA-SNP per member per month ("PMPM") premium rate for the three months ended March 31, 2008 was \$1,232.

Total expenses increased \$5.9 million (128%) to \$10.5 million for the three months ended March 31, 2008, compared to \$4.6 million for the three months ended March 31, 2007, principally due to goodwill impairment charge of \$3.5 million and medical expenses related to our MA-SNP, which was launched in January 2007.

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Medical expenses for our MA-SNP were \$2.5 million for the three months ended March 31, 2008 compared to \$0.3 million for the three months ended March 31, 2007. As our MA-SNP was launched in January 2007, the increase in medical expenses is attributable to the growth in our MA-SNP activity. The percentage of such medical expenses to medical premiums revenues for our MA-SNP -- the medical loss ratio ("MLR") -- was 87.5% for the three months ended March 31, 2008.

Marketing, general and administrative expenses increased \$0.3 million (6%) to \$4.5 million for the three months ended March 31, 2008 from \$4.2 million for the three months ended March 31, 2007. The increase was principally due to marketing costs related to our MA-SNP.

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Depreciation and amortization expense was \$0.05 million for the three months ended March 31, 2008, a \$0.02 increase from \$0.03 million for the three months ended March 31, 2007.

A goodwill impairment charge was recorded in the three months ended March 31, 2008. Management has assessed the remaining carrying amount of previously recorded goodwill of \$3.5 million and determined that such amount has been impaired in accordance with SFAS No. 142. Accordingly, goodwill impairment was recorded for \$3.5 million as a result of the pending expiration of the TennCare contract as further discussed in Note 11 to our Unaudited Condensed Consolidated Financial Statements in Item 1 above.

Income tax expense was \$1.5 million for the three months ended March 31, 2008 compared to \$0.01 million for the three months ended March 31, 2007. The Company's effective tax rate for the three months ended March 31, 2008 is (69)% and differs from the statutory rate of 34%. This difference was primarily related to the change in the valuation allowance and an impairment charge against goodwill, which is not deductible for tax purposes. As a result of the pending expiration of the TennCare contract as further discussed in Note 11 to our Unaudited Condensed Consolidated Financial Statements in Item 1 above, the Company increased its deferred tax asset valuation allowance due to uncertainties in its expected utilization.

Loss before income taxes was \$2.3 million for the third fiscal quarter ended March 31, 2008 compared to loss before income taxes of \$0.03 million for the quarter ended March 31, 2007.

Net loss was \$3.8 million, or (\$0.43) per basic share, for the quarter ended March 31, 2008, compared to net loss of \$0.04 million, or \$0.00 per basic share, for the quarter ended March 31, 2007. The decrease is principally due to the goodwill impairment charge of \$3.5 million recorded in the third quarter of fiscal 2008 and deferred tax expense resulting from the pending expiration of the TennCare contract as further discussed in Note 11 to our Unaudited Condensed Consolidated Financial Statements in Item 1 above. The decrease was offset by the increase in the variable administrative fees and Medicare premiums related to our MA SNP. Excluding the impact of the goodwill impairment charge and the increase of the deferred tax asset valuation allowance, net income would have been \$1.2 million or \$0.13 per basic share for the three months ended March 31, 2008.

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FOR THE NINE MONTHS ENDED MARCH 31, 2008 COMPARED TO

NINE MONTHS ENDED MARCH 31, 2007

Total revenues increased \$8.5 million (66%) to \$21.5 million for the nine months ended March 31, 2008, compared to \$13.0 million for the nine months ended March 31, 2007. The increase was principally due to an increase in our MA-SNP revenues and variable administrative fees offset by the decrease in TennCare revenues.

Fixed administrative fees related to TennCare's ASO program were \$11.0 million for the nine months ended March 31, 2007, a decrease of \$0.8 million (7%) from \$11.8 million in the nine months ended March 31, 2007. The decrease is principally due to a decrease in TennCare enrollees.

Variable administrative fees resulting from MRA revenue were \$1.7 million for the nine months ended March 31, 2008. There were no variable administrative fees for the nine months ended March 31, 2007. The \$1.7 million MRA revenue received

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in fiscal 2008 relates to the fiscal year 2007, but was recorded when received.

Our MA-SNP medical premiums revenues were \$7.7 million for the nine months ended March 31, 2008 compared to \$0.4 million for the nine months ended March 31, 2007. The increase in MA-SNP medical premiums revenues is attributable to the increase in MA-SNP enrollees.

Our MA-SNP per member per month ("PMPM") premium rate for the nine months ended March 31, 2008 was \$1,196.

Total expenses increased \$11.0 million (88%) to \$23.3 million for the nine months ended March 31, 2008, compared to \$12.3 million for the nine months ended March 31, 2007, principally due to the goodwill impairment charge of \$3.5 million recorded in the third fiscal quarter of 2008 and medical expenses related to our MA-SNP, which was launched January 1, 2007, offset by \$0.4 million received from TennCare during the second fiscal quarter ended December 31, 2007 as reimbursement for certain services performed under UAHC-TN's TennCare contract.

Medical expenses for our MA-SNP were \$7.0 million for the nine months ended March 31, 2008 compared to \$0.3 million for the nine months ended March 31, 2007. The \$6.7 million increase is attributable to the growth of our MA-SNP. The percentage of such medical expenses to medical premiums revenues for our MA-SNP -- the medical loss ratio ("MLR") -- was 90.4% for the nine months ended March 31, 2008.

Marketing, general and administrative expenses increased \$0.8 million (7%) to \$12.8 million for the nine months ended March 31, 2008 from \$12.0 million for the nine months ended March 31, 2007. The increase was principally due to additional marketing costs related to our MA-SNP.

A goodwill impairment charge was recorded in the nine months ended March 31, 2008. Management has assessed the remaining carrying amount of previously recorded

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goodwill of \$3.5 million and determined that such amount has been impaired in accordance with SFAS No. 142. Accordingly, goodwill impairment was recorded for \$3.5 million as a result of the pending expiration of the TennCare contract as further discussed in Note 11 to our Unaudited Condensed Consolidated Financial Statements in Item 1 above.

Depreciation and amortization expense remained relatively unchanged at \$0.1 million for the nine months ended March 31, 2008 and 2007.

Income tax expense was \$1.6 million for the nine months ended March 31, 2008, an increase from \$0.1 million for the nine months ended March 31, 2007. The Company's effective tax rate for the nine months ended March 31, 2008 is (91)% and differs from the statutory rate of 34%. This difference is primarily the result of the change in the valuation allowance and an impairment charge against goodwill, which is not deductible for tax purposes. As a result of the pending expiration of the TennCare contract as further discussed in Note 11 to our Unaudited Condensed Consolidated Financial Statements in Item 1 above, the Company increased its deferred tax asset valuation allowance due to uncertainties in its expected utilization.

Loss before income taxes was \$1.8 million for the nine months ended March 31, 2008 compared to earnings before income taxes of \$0.6 million for the nine

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months ended March 31, 2007.

Net loss was \$3.4 million, or \$0.40 per basic share, for the nine months ended March 31, 2008, compared to net earnings of \$0.5 million, or \$0.07 per basic share, for the nine months ended March 31, 2007. Such decrease in earnings of \$3.9 million, or \$0.46 per basic share, is principally due to the goodwill impairment charge of \$3.5 million and deferred tax expense of \$1.5 million resulting from the pending expiration of the TennCare contract as further discussed in Note 11 to our Unaudited Condensed Consolidated Financial Statements in Item 1 above. The decrease was offset by the receipt of \$1.7 million in variable administrative fees, and an increase in our MA-SNP revenues. Excluding the impact of the goodwill impairment charge and the increase of the deferred tax asset valuation allowance, net income would have been \$1.5 million or \$0.17 per basic share for the nine months ended March 31, 2008.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2008, the Company had (i) cash and cash equivalents and short-term marketable securities of \$19.2 million, compared to \$14.2 million at June 30, 2007; (ii) working capital of \$15.8 million, compared to working capital of \$13.1 million at June 30, 2007; and (iii) a current assets-to-current liabilities ratio of 3.69-to-1, compared to 3.13-to-1 at June 30, 2007.

Net cash provided by operating activities of \$5.2 million in the nine months ended March 31, 2008 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 as well as receipt of \$1.7 million from TennCare during the nine months ended March 31, 2008 as

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reimbursement for certain services performed under UAHC-TN's TennCare contract. See Note 8 to our Unaudited Condensed Consolidated Financial Statements in Item 1 above for additional information regarding the restricted assets.

Cash flow was \$1.5 million for the nine months ended March 31, 2008, compared to \$1.9 million for the comparable period a year earlier. The decrease was principally due to the net proceeds received from the private placement of common stock during fiscal 2007, which more than offset net cash used in investing activities. There were no private placement transactions during fiscal 2008.

Accounts receivable from the State of Tennessee decreased by \$0.3 million at March 31, 2008 compared to June 30, 2007, primarily due to timing of cash receipts from TennCare.

Property, plant and equipment increased by \$0.2 million at March 31, 2008 compared to June 30, 2007, due to recording depreciation of \$0.1 million offset by equipment purchases of \$0.3 million.

Goodwill decreased by \$3.5 million at March 31, 2008 compared to June 30, 2007 due to impairment as a result of the pending expiration of the TennCare contract as further discussed in Note 11 to our Unaudited Condensed Consolidated Financial Statements in Item 1 above and in the final paragraph below in the section captioned "Liquidity And Capital Resources."

SFAS No. 109, "Accounting for Income Taxes," (SFAS No. 109) requires that companies assess whether valuation allowances are adequate against their deferred tax assets based on the consideration of all available evidence. We

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concluded that our valuation allowance should be increased given that the Company's subsidiary, UAHC Health Plan of Tennessee, Inc. ("UAHC-TN"), will cease providing managed care services in the TennCare West Grand Region of Tennessee when its present TennCare contract expires as further discussed in Note 11. In the third quarter of fiscal 2008, we recorded deferred tax expense of \$1.5 million against our deferred tax asset.

The Company's wholly owned subsidiary, UAHC-TN, had a required minimum net worth requirement using statutory accounting practices of \$7.1 million at March 31, 2008. UAHC-TN had excess statutory net worth of approximately \$7.5 million at March 31, 2008.

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 -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

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administrative fee revenue and potentially could receive up to 15% incentive bonus revenue based on performance relative to benchmarks (through June 30, 2007). UAHC TN received notice from TennCare that it earned additional revenue of \$1.1 million for its performance under the MRA for fiscal 2006, representing a 7% bonus revenue payout. Such additional revenue has been recorded, of which \$0.8 million was recorded in fiscal 2007, and of which \$0.3 million was recorded in the second quarter of fiscal 2008. UAHC-TN also earned and received additional revenue of \$1.4 million for fiscal 2007, representing a 9% bonus revenue payout, and the Company has recorded such additional MRA earnings in the third quarter of fiscal 2008, when UAHC-TN was notified by TennCare of the amount. 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.

Under two escrow agreements between the Company and TennCare, on August 5, 2005 the Company funded two escrow accounts held by TennCare at the State Treasury. Both escrow agreements recited that TennCare did not at that time assert there had been any breach of UAHC-TN's TennCare contract and that the Company funded the escrow accounts as a show of goodwill and good faith in working with TennCare.

The larger escrow account, which has expired, was in the original amount of \$2,300,000 and was security for repayment to TennCare of any overpayments to UAHC-TN that might be determined by an audit of all UAHC-TN process claims since 2002. In August 2007, the Company received \$1,289,851 plus accumulated interest earnings back from that account. In November 2007, the remaining \$1,010,149 account balance was paid to TennCare for claims discrepancies found in the audit by the Tennessee Department of Commerce and Insurance.

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

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by state and federal authorities. The escrow account will terminate 30 days after the conclusion of such investigations, unless the parties earlier agree otherwise. The escrow account 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 account 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 agreement.

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 have been and are principally for start-up costs associated with the Company's Tennessee subsidiary's Medicare Advantage contract with the Centers for

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Medicare & Medicaid Services, which became effective January 1, 2007, and also for working capital and general corporate purposes.

On April 22, 2008, the Department of Finance and Administration of the State of Tennessee, Bureau of TennCare, disclosed its decision to award new TennCare contracts to two named organizations, not including the Company's subsidiary, UAHC-TN, as the culmination of TennCare's selection process pursuant to its Request for Proposals for managed care services to be provided in the West Grand Region of Tennessee. Consequently, UAHC-TN's TennCare members are expected to transfer to other managed care organizations on November 1, 2008, after which UAHC-TN will perform its remaining contractual obligations through its TennCare contract expiration date (which it expects will be extended to June 30, 2009 from the current June 30, 2008 expiration date). Revenue under this contract represented 59% and 61% of the Company's total revenues for the nine and three months ended March 31, 2008, respectively. As of March 31, 2008, there were approximately 100,185 TennCare enrollees in UAHC-TN. Management believes that the discontinuance of the TennCare contract will have material impact on the Company's operations.

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 March 31, 2008, and based on their evaluation, our principal executive and principal financial officers have concluded that these controls and procedures are effective as of March 31, 2008. There was no change in our internal controls over financial reporting identified in connection with such evaluation that occurred during our fiscal quarter ended March 31, 2008 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

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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

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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 reported in our most recent Annual Report on Form 10-K and our two most recent Quarterly Reports on Form 10-Q, in the consolidated cases 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, and on March 1, 2007, the plaintiffs appealed the dismissal order to the U.S. Court of Appeals for the Sixth Circuit. Both sides have filed their appellate briefs, oral arguments were held before that U.S. Court of Appeals on March 20, 2008, and we are awaiting the Court's decision.

As we reported in our Quarterly Report on Form 10-Q filed on April 28, 2005, on April, 22, 2005, a lawsuit was filed in the Circuit Court of Tennessee for the Thirteenth Judicial Court, Case No. CT-002213-05, entitled Briggette Green v. OmniCare Health Plan, Inc., now known as UAHC Health Plan of Tennessee, Inc.; United American of Tennessee, Inc.; United American Healthcare Corporation. The plaintiff, a former employee of OmniCare Health Plan, Inc. (now called UAHC Health Plan of Tennessee, Inc.), seeks damages of \$1,500,000 and other relief from the defendants based on allegations that she was discharged from her job in violation of the State's whistle blower protection act. We and our two Tennessee subsidiaries that are our co-defendants believe the lawsuit is without merit, filed an answer denying those allegations and intend to vigorously defend the lawsuit. Discovery has commenced in the case and the trial has been scheduled to commence on June 3, 2008, but it possibly might not commence until an unknown later date.

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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.

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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: May 13, 2008

By: /s/ William C. Brooks

William C. Brooks
Chairman, President &
Chief Executive Officer

Dated: May 13, 2008

By: /s/ Stephen D. Harris

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