UNITED AMERICAN HEALTHCARE CORP
Form 10-Q
February 19, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q
(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
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For the quarterly period ended December 31, 2012

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: 001-11638

UNITED AMERICAN HEALTHCARE CORPORATION
(Exact name of registrant as specified in its charter)

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

303 East Wacker Drive, Suite 1200
Chicago, Illinois 60601
(Address of principal executive offices) (Zip code)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes [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 reporting company" in Rule 12b 2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer o	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company x

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

The number of outstanding shares of registrant's common stock as of February 19, 2013 is 11,817,766.

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
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	December 31, 2012	June 30, 2012
Assets		
Current assets		
Cash and cash equivalents	$ 11	$ 215
Accounts receivable, trade net	943	883
Inventories	374	228
Prepaid expenses and other	57	118
Total current assets	1,385	1,444
Property and equipment, net	1,450	1,373
Goodwill	10,228	10,228
Other intangibles, net	1,846	2,062
Other assets	243	459
Total assets	$ 15,152	$ 15,566
Liabilities and Shareholders' Equity		
Current liabilities		
Long-term debt, current portion	$ 667	$ 2,370
Accounts payable	344	340
Accrued expenses	218	550
Redeemable preferred member units of subsidiary, current portion and net of discount	2,748	2,553
Put obligation on common stock	5,694	5,694
Other current liabilities	43	96
Total current liabilities	9,714	11,603
Long-term debt, less current portion	2,545	1,125
Deferred tax liability	301	301
Capital lease obligations, less current portion	10	8
Interest rate swap obligation, at fair value	19	32
Liabilities of discontinued operations	-	16
Total liabilities	$ 12,589	$ 13,085
Commitments and contingencies		
Shareholders' equity		
Preferred stock, 5,000,000 shares authorized; none issued	-	-
Common stock, no par, 15,000,000 shares authorized; 11,817,766 shares issued and outstanding at both December 31, 2012 and June 30, 2012	19,036	19,036
Additional paid in capital	2,273	2,273
Accumulated deficit	(18,746)	(18,828)
Total shareholders' equity	$ 2,563	2,481
Total liabilities and shareholders' equity	$ 15,152	$ 15,566

See accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

United American Healthcare Corporation and Subsidiaries
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Three Months Ended December 31, 2012	Three Months Ended December 31, 2011	Six Months Ended December 31, 2012	Six Months Ended December 31, 2011
Contract manufacturing revenue	$1,924	$1,433	$3,834	$3,164
Operating Expenses				
Cost of contract manufacturing services	$1,149	$933	$2,259	$1,935
Marketing, general and administrative	670	668	1,317	1,429
Total operating expenses	1,819	1,601	3,576	3,364
Operating income (loss)	105	(168)	258	(200)
Discount on preferred member units of subsidiary	(84)	-	(195)	-
Change in fair value of put obligation	-	(186)	-	(653)
Interest and other income (expense), net	(38)	(154)	(84)	(310)
Loss from continuing operations, before income tax	(17)	(508)	(21)	(1,163)
Income tax expense	—	13	-	21
Loss from continuing operations	(17)	(521)	(21)	(1,184)
Discontinued Operations				
Income from discontinued operations	16	18	103	33
Income tax expense from discontinued operations	-	-	-	-
Income from discontinued operations	16	18	103	33
Net Income (loss)	$(1)	$(503)	$82	$(1,151)
Continuing Operations:				
Net income (loss) per common share - basic and diluted				
Net income (loss) per common share	$(0.00)	$(0.04)	$(0.00)	(0.10)
Weighted average shares outstanding	11,818	11,818	11,818	11,818
Discontinued Operations:				
Net income (loss) per common share - basic and diluted				
Net income (loss) per common share	$(0.00)	$(0.00)	$0.01	(0.00)
Weighted average shares outstanding	11,818	11,818	11,818	11,818
Net income (loss) per common share - basic and diluted				
Net income (loss) per common share	$(0.00)	$(0.04)	$0.01	(0.10)
Weighted average shares outstanding	11,818	11,818	11,818	11,818

See accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

United American Healthcare Corporation and Subsidiaries
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Six Months Ended December 31,	
	2012	2011
Operating activities		
Net income (loss)	$82	$(1,151)
Less: Net income from discontinued operations	103	33
Net loss from continuing operations	(21)	(1,184)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	377	434
Amortization of debt discount	7	111
Discount on preferred member units of subsidiary	195	-
Change in fair value of put obligation	-	653
Change in fair value of interest rate swap	13	-
Stock-based compensation	-	15
Net changes in other operating assets and liabilities	(310)	202
Net cash used in operating activities of continuing operations	261	231
Net cash provided by operating activities of discontinued operations	87	88
Net cash provided by operating activities	348	319
Investing activities		
Purchase of equipment	(211)	(377)
Net cash used in investing activities by continuing operations	(211)	(377)
Net cash used in investing activities by discontinued operations	-	-
Net cash used in investing activities	(211)	(377)
Financing activities		
Payments of long-term debt	(704)	(1,006)
Redemption of preferred stock	-	(200)
Proceeds from debt borrowings	420	700
Payment on capital lease obligation	(57)	(62)
Net cash used in financing activities by continuing operations	(341)	(568)
Net cash used in financing activities by discontinued operations	-	-
Net cash used in financing activities	(341)	(568)
Net decrease in cash and cash equivalents	(204)	(626)
Cash and cash equivalents at beginning of period	$215	1,532
Cash and cash equivalents at end of period	$11	$906
Supplemental disclosure of cash flow information		
Interest paid	$98	$318

See accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

NOTE 1 – DESCRIPTION OF BUSINESS

United American Healthcare Corporation (the "Company" or "UAHC") was incorporated in Michigan on December 1, 1983 and commenced operations in May 1985.
From November 1993 to June 2009, the Company's indirect, wholly owned subsidiary, UAHC Health Plan of Tennessee, Inc. ("UAHC-TN"), was a managed care organization in the TennCare program, a State of Tennessee program that provided medical benefits to Medicaid and working uninsured recipients. From January 2007 to December 2009, UAHC-TN served as a Medicare Advantage qualified organization (the "Medicare contract") pursuant to a contract with the Centers for Medicare & Medicaid Services ("CMS"). See Note 5 for a discussion of Tennessee operations.

On June 18, 2010, UAHC acquired Pulse Systems, LLC (referred to as "Pulse Systems" or "Pulse"). See Note 4 for the details of this transaction. With the acquisition of Pulse Systems, UAHC provides contract manufacturing services to the medical device industry, with a focus on precision laser-cutting capabilities and the processing of thin-wall tubular metal components, sub-assemblies and implants, primarily in the cardiovascular market.

NOTE 2 – BASIS OF PREPARATION

The accompanying unaudited condensed consolidated financial statements include the accounts of United American Healthcare Corporation, and its wholly owned subsidiary Pulse Systems, LLC. 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 U.S. generally accepted accounting principles ("GAAP") and with the instructions for Form 10-Q and Article 10 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.

For all periods presented in the accompanying unaudited condensed consolidated statements of operations, the Company's managed care business is classified as discontinued operations. At December 31, 2010, the Company reclassified the managed care services of UAHC-TN to discontinued operations based on the fact that the Company had performed substantially all of its contractual obligations.

In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the financial position, results of operations and cash flows have been included. The results of operations for the six months ended December 31, 2012 are not necessarily indicative of the results of operations expected for the full fiscal year ended June 30, 2013 ("fiscal 2013") or for any other period. The accompanying interim unaudited condensed consolidated financial statements and related notes should be read in conjunction with our audited consolidated financial statements and related notes contained in our most recent annual report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on October 11, 2012 and the Form10-K/A filed with the SEC on December 17, 2012.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Goodwill. Goodwill resulting from business acquisitions is carried at cost. The carrying amount of goodwill is 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. There was no goodwill impairment charges recorded during the six months ended December 31, 2012 or 2011.

b. Inventories. Inventories are valued at the lower of cost, on a first-in, first-out method, or market. Work in process and finished goods include materials, labor and allocated overhead.

Inventories consist of the following at December 31, 2012 and June 30, 2012, (in thousands):

	December 31, 2012	June 30, 2012
Raw materials	$81	61
Work in process	286	143
Finished goods	7	24
Inventories	$374	228

c. Other Intangibles. Intangibles assets are amortized over their estimated useful lives using the straight-line method. The following is a summary of intangible assets subject to amortization as of December 31, 2012 and June 30, 2012, including the retroactive adjustments for final valuation of such intangible assets (in thousands):

	December 31, 2012	June 30, 2012
Customer list	$2,927	2,927
Backlog	425	425
Total intangible assets	3,352	3,352
Less: accumulated amortization	(1,506)	(1,290)
Other intangible assets, net	$1,846	2,062

The backlog was amortized over a six month period and is fully amortized. The customer list is amortized over seven years. Amortization expense was $0.2 million for the six months ended December 31, 2012 and 2011, respectively.

d. Fair Value Measurements. To prioritize the inputs the Company uses in measuring fair value, the Company applies a three-tier fair value hierarchy. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, reflects management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration was given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model. Determining which hierarchical level an asset or liability falls within requires significant judgment. The Company evaluates its hierarchy disclosures each quarter.

The following table summarizes the financial instruments measured at fair value in the Consolidated Balance Sheet as of December 31, 2012 and June 30, 2012:

December 31, 2012	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
Liabilities				
Interest rate swaps	$-	$19	$ -	$19
Put obligation on common stock	$-	$5,694	$ -	$5,694

June 30, 2012	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
Liabilities				
Interest rate swaps	$-	$32	$ -	$32
Put obligation on common stock	$-	$5,694	$ -	$5,694

The Company uses an interest swap to manage the risk associated with its floating long-term notes payable. As interest rates change, the differential paid or received is recognized in interest expense for the period. In addition, the change in fair value of the swaps is recognized as interest expense or income during each reporting period. As of December 31, 2012, the fair value of the interest rate swap was determined to be $19,000 using valuation models rather than actual quotes. The Company has not designated these interest rate swaps for hedge accounting.

As of December 31, 2012, the aggregate notional amount of the swap agreements was $1.5 million, which will mature on March 31, 2014. The notional amount of the swap will decrease by $0.3 million each quarter or $1.2 million each year. The Company is exposed to credit loss in the event of nonperformance by the counterpart to the interest rate swap agreements. The interest rate swaps are classified within level 2 of the fair market measurements.

The total gain included in earnings for the six months end December 31, 2012 related to the change in fair value of the interest rate swap was $13,000.

NOTE 4 – ACQUISITION

On June 18, 2010, the Company entered into a Securities Purchase Agreement and a Warrant Purchase Agreement to acquire 100% of the outstanding common units and warrants to purchase common units of Pulse. The consideration paid to acquire the common units and warrants of Pulse totaled approximately $9.46 million, which consisted of (a) cash paid at closing of $3.40 million, (b) a non-interest bearing note payable of $1.75 million (secured by a subordinated pledge of all the common units of Pulse), (c) 1,608,039 shares of UAHC common stock determined based on an initial value of $1.6 million, (d) an estimated purchase price adjustment of $210,364 based on targeted levels of net working capital, cash and debt of Pulse at the acquisition date, and (e) the funding of $2.5 million for certain obligations of Pulse as discussed below. The shares of UAHC common stock were issued on July 12, 2010, upon approval by the Company's board of directors on July 7, 2010 and, therefore, were revalued at June 30, 2011. The shares of UAHC common stock had a fair value of $1.05 million as of June 30, 2010, which was recorded as accrued purchase price at that date, and a fair value of $884,000 on July 12, 2010, the date the shares were issued and recorded. The decline in the value of the common stock was recorded as a reduction of goodwill. The Company also assumed Pulse's term loan from a bank of $4.25 million, after making a payment at closing as discussed below.

In connection with the acquisition of the Pulse common units, Pulse entered into a redemption agreement with the holders of its preferred units to redeem the preferred units for $3.99 million. Pulse is allowed to redeem the preferred units only if UAHC makes additional cash equity contributions to Pulse in an amount necessary to fully fund each such redemption. UAHC funded an initial payment of $1.75 million to the preferred unit holders on June 18, 2010. Pulse agreed to redeem the remaining preferred units over a two-year period ending in June 2012. Finally, as an additional condition of closing, UAHC funded a $750,000 payment toward Pulse's outstanding term loan with a bank and pledged all of the common units of Pulse to the bank as additional security for the remaining $4.25 million outstanding under the loan. The initial payment of $1.75 million to the preferred unit holders and the $750,000 payment to the bank by UAHC are considered additional consideration for the acquisition of Pulse. The funding of the remaining redemption payments totaling $2.24 million and the assumption of Pulse's revolving and term loans are not included in the $9.46 million purchase price listed above.

The Company finalized its valuation of all assets acquired during the three months ended September 30, 2010, primarily related to long-lived tangible and intangible assets and restated the balance sheet at June 30, 2010 to reflect the final purchase price allocation.

NOTE 5 – DISCONTINUED OPERATIONS

On April 22, 2008, the Company learned that UAHC-TN would no longer be authorized to provide managed care services as a TennCare contractor when its TennCare contract expired on June 30, 2009. UAHC-TN's TennCare members transferred to other managed care organizations on November 1, 2008, after which UAHC-TN continued to perform its remaining contractual obligations through its TennCare contract expiration date of June 30, 2009.

From January 2007 to December 2009, UAHC-TN served as a Medicare contractor with CMS. The contract authorized UAHC-TN to offer a SNP to its eligible members in Shelby County, Tennessee (including the City of Memphis), and to operate a Voluntary Medicare Prescription Drug Plan. The Company did not seek renewal of the Medicare contract, which expired December 31, 2009. The Company completed the wind down of the Medicare business during the three months ended December 31, 2010.

During fiscal year 2011, the Company recognized a liability for certain costs associated with an exit or disposal activity and measured the liability initially at its fair value in the period in which the liability was incurred. The costs recognized included employee termination benefits, lease termination and costs to relocate the Company's facility. As of June 30, 2011, all amounts have been paid.

For all periods presented in the accompanying unaudited condensed consolidated statements of operations, the Company's managed care business is classified as discontinued operations. Starting December 31, 2010, the Company reclassified the managed care services of UAHC-TN to discontinued operations based on the fact that the Company had performed substantially all of its contractual obligations.

The major classes of assets related to discontinued operations, were as follows (in thousands):

	December 31, 2012	June 30, 2012
Assets:		
Prepaid expenses and other	$ —	$ 55
Liabilities		
Medical claims payable	$ —	$ 16

	For the Six Months Ended December 31, 2012	2011
Revenues	$—	$ —
Income from discontinued operations, before income taxes	$103	$ 15

NOTE 6 – NOTES PAYABLE

The Company's long-term borrowings consist of the following at December 31, 2012, and June 30, 2012, respectively (in thousands):

	December 31, 2012	June 30, 2012
Notes payable to bank	$ 1,667	$2,370
Notes payable to related party	1,545	1,125
Total debt	3,212	3,495
Less: current portion	(667)	(2,370)
Total long-term debt	$ 2,545	$1,125

Following its acquisition by the Company, Pulse Systems remains party to the Loan and Security Agreement, as amended (the "Loan Agreement"), with Fifth Third Bank, which currently relates to a revolving loan not to exceed $0.5 million, of which no amounts were outstanding as of December 31, 2012 or June 30, 2012, and a $2.0 million term loan, with a remaining balance of $1.7 million as of December 31, 2012 and $2.4 million as of June 30, 2012. The revolving loan matures January 31, 2014 and bears interest at LIBOR plus 6.00%. The term loan interest is payable monthly and as of December 31, 2012 is calculated based on LIBOR plus 6.25%, with $167,667 quarterly principal payments due through December 31, 2013, and a final balloon payment of $1,000,000 on January 31, 2014. The term loan effective interest rate is 6.60% as of December 31, 2012. The revolving loan and term loan are secured by a lien on all of the assets of Pulse Systems.

The Loan Agreement contains financial covenants. At December 31, 2012, the Company was in compliance with the financial covenants.

In addition, UAHC has pledged its membership interests in Pulse Systems to Fifth Third as additional security for the loans, as set forth in the Membership Interest Pledge Agreement (the "Pledge Agreement").

On September 28, 2011, the Company issued a Promissory Note (the "Promissory Note") to St. George, a related party, in exchange for a loan in the amount of $400,000 made by St. George to the Company. The Company used the proceeds of the loan for working capital purposes. Interest on the Promissory Note accrues at an annual rate of 10%. Principal and interest payments are due at the maturity date of December 31, 2014, or if the Company were to sell substantially all of its assets before then. However, the Company can pay, without penalty, the Convertible Note before maturity. In the case of default, St. George can convert all or part of the principal amount and the unpaid interest into newly issued shares of the Company's common stock. The initial conversion price was $0.0447 per share.

On December 9, 2011, the Company issued a Promissory Note (the "Second Promissory Note") in favor of St. George, a related party, in exchange for a loan in the amount of $300,000 made by St. George to the Company. The Company used the proceeds of the loan for working capital purposes. Interest on the Second Promissory Note accrues at an annual rate of 10%. No payments of principal or interest on the Second Promissory Note are due until the Second Promissory Note matures, which is on the earlier of (a) December 31, 2014, or (b) the date of (i) the sale of all or substantially all of the assets of the Company or Pulse Systems, (ii) the merger of the Company or Pulse Systems, LLC, or (iii) the sale of all or substantially all of the equity of the Company or Pulse Systems, LLC. Only upon an event of default (as defined in the Second Promissory Note), the holder of the Second Promissory Note may elect to convert all or any part of the outstanding principal of, and the accrued but unpaid interest on, the Second Promissory Note into newly issued shares of common stock of the Company. The initial conversion price was $0.0226 per share.

On February 9, 2012, the Company issued a Promissory Note (the "Third Promissory Note") in favor of St. George, a related party, in exchange for a loan in the amount of $350,000 made by St. George to the Company. The Company used the proceeds of the loan for working capital purposes. Interest on the Third Promissory Note accrues at an annual rate of 10%. No payments of principal or interest on the Third Promissory Note are due until the Third Promissory Note matures, which is on the earlier of (a) December 31, 2014, or (b) the date of (i) the sale of all or substantially all of the assets of the Company or Pulse Systems, (ii) the merger of the Company or Pulse Systems, LLC, or (iii) the sale of all or substantially all of the equity of the Company or Pulse Systems, LLC. Only upon an event of default (as defined in the Third Promissory Note), the holder of the Third Promissory Note may elect to convert all or any part of the outstanding principal of, and the accrued but unpaid interest on, the Third Promissory Note into newly issued shares of common stock of the Company. The initial conversion price was $0.01903 per share.

On May 16, 2012, the Company issued a Promissory Note (the "Fourth Promissory Note") in favor of St. George, a related party, in exchange for a loan in the amount of $75,000 made by St. George to the Company. The Company used the proceeds of the loan for working capital purposes. Interest on the Fourth Promissory Note accrues at an annual rate of 10%. No payments of principal or interest on the Fourth Promissory Note are due until the Fourth Promissory Note matures, which is on the earlier of (a) December 31, 2014, or (b) the date of (i) the sale of all or substantially all of the assets of the Company or Pulse Systems, (ii) the merger of the Company or Pulse Systems, LLC, or (iii) the sale of all or substantially all of the equity of the Company or Pulse Systems, LLC. Only upon an event of default (as defined in the Fourth Promissory Note), the holder of the Fourth Promissory Note may elect to convert all or any part of the outstanding principal of, and the accrued but unpaid interest on, the Fourth Promissory Note into newly issued shares of common stock of the Company. The initial conversion price was $0.01793 per share.

On August 14, 2012, The First, Second, Third and Fourth Promissory Notes were amended to make the indebtedness evidenced by each Promissory Note secured by a) all the assets of the Company, and b) all of the Company's ownership interest in Pulse pursuant to the terms of the St. George Pledge Agreement.

On August 14, 2012, the Company issued a Promissory Note (the "Fifth Promissory Note") in favor of St. George, in exchange for a loan in the amount of $370,000 made by St. George to the Company. Loan proceeds from the Fifth Promissory Note were transferred by the Company to Pulse. The initial conversion price of the Fifth Promissory Note is $0.010277667. As required by the Purchase Agreement, Pulse entered into that certain Security Agreement by and between Pulse and St George dated August 14, 2012 ("Pulse Security Agreement'), thereby securing the Fifth Promissory Note and the Prior Promissory Notes with all of the assets of Pulse. Pulse also unconditionally guaranteed repayment of   and the Fifth Promissory Note Prior Notes by executing that certain Guaranty dated August 14, 2012, in favor of St George ("Pulse Guaranty").

On October 10, 2012, the Company issued a Promissory Note (the "Sixth Promissory Note") in favor of St. George, a related party, in exchange for a loan in the amount of $50,000 made by St. George to the Company. The Company used the proceeds of the loan for working capital purposes. Interest on the Sixth Promissory Note accrues at an annual rate of 10%. No payments of principal or interest on the Sixth Promissory Note are due until the Sixth Promissory Note matures, which is on the earlier of (a) December 31, 2014, or (b) the date of (i) the sale of all or substantially all of the assets of the Company or Pulse Systems, (ii) the merger of the Company or Pulse Systems, LLC, or (iii) the sale of all or substantially all of the equity of the Company or Pulse Systems, LLC. Only upon an event of default (as defined in the Sixth Promissory Note), the holder of the Sixth Promissory Note may elect to convert all or any part of the outstanding principal of, and the accrued but unpaid interest on, the Sixth Promissory Note into newly issued shares of common stock of the Company. The conversion price is $0.004323 per share.

If the Company issues any convertible security with a conversion price lower than that of the promissory notes issued by the Company to St. George, discussed above, the conversion prices for those promissory notes automatically reduces to the lower conversion price. Accordingly, the conversion price for each of the promissory notes is $0.004323 per share of the Company's common stock, which is the conversion price of the most recent promissory note. If the Company were to default on the promissory notes, and if St. George were then to elect to convert the $1,545,000 aggregate principal amount the promissory notes, the Company would be obligated to issue to St. George 357,638,880 shares of common stock. This number of shares exceeds the number of the Company's authorized shares of common stock that are available to be issued. An issuance of all of the Company's remaining authorized but unissued shares of common stock to St. George would be highly dilutive to the other holders of the Company's common stock.

The Company and St George entered into that certain Pledge and Security Agreement dated August 14, 2012 ("St George Pledge Agreement"), thereby providing that the Fifth Promissory Note is secured by all of the Company's ownership interests in its subsidiary, Pulse. The Fifth Promissory Note is also secured by all of the assets of the Company pursuant to that certain Security Agreement between the Company and St George dated August 14, 2012 ("St George Security Agreement"). St George required Pulse to guarantee repayment of the Fifth promissory Note and the Prior Notes, and to secure all such indebtedness by all of the assets of Pulse. As such, Fifth Third Bank and St George entered into that certain Subordination Agreement dated August 17, 2012 ("Subordination Agreement"), thereby indicating that Fifth Third Bank was in a first lien position, and St George was in a subordinate lien position. St George was also required to execute that certain Membership Interest Pledge Agreement dated August 17, 2012, in favor of Fifth Third, thereby pledging to Fifth Third all of its preferred units in Pulse ("Preferred Unit Pledge Agreement").

Interest expense was approximately $98,000 and $314,000 for six months ended December 31, 2012 and 2011, respectively.

NOTE 7 - REDEEMABLE PREFERRED MEMBER UNITS

In connection with the acquisition of Pulse, Pulse Systems also entered into a Redemption Agreement, dated June 18, 2010 (the "Redemption Agreement"), with Pulse Systems Corporation, the holder of all of the outstanding preferred units in Pulse Systems. The aggregate redemption price was $3.99 million for the preferred units, including the accrued but unpaid return on such units, which reflects a $0.83 million reduction from the actual outstanding amount as of the date of the agreement. In addition, the 14% dividend rate on the preferred units was eliminated, subject to reinstatement if there is a default as explained in the next sentence. Failure to make any of the redemption payments would result in the increase of the redemption price for its preferred units by $0.83 million and a 14% per annum cumulative (but not compounded) return on the aggregate amounts of the unredeemed preferred units plus the $0.83 million commencing on the date of default. Pulse Systems Corporation agreed to the redemption of its preferred units over a two-year period, commencing with a cash payment made at closing of $1.75 million. On August 30, 2011, St. George Investments purchased the preferred stock held by Pulse Corporation in Pulse Systems, LLC. The obligations of Pulse Systems under the redemption agreement are subordinate to its obligations under the Loan Agreement and Pledge Agreement.

On January 1, 2012, Pulse Systems was in default of the Redemption Agreement. As a result, the $0.83 million reduction from the amount outstanding at June 18, 2010 was reinstated. In addition, 14% interest on the preferred amount began from the default date of January 1, 2012. The redeemable preferred units were recorded in the December 31, 2012 and June 30, 2012 unaudited condensed balance sheets at a value of approximately $2.7 million and $2.5 million, respectively, net of a 12% discount.

NOTE 9 – NET INCOME (LOSS) PER COMMON SHARE

Basic net income (loss) per share excluding dilution has been computed by dividing net income (loss) by the weighted average number of common shares outstanding for the period. Diluted net income (loss) per share is computed using the treasury stock method for outstanding stock options and warrants. For the six months ended December 31, 2011, the Company incurred a net loss. Accordingly, no common stock equivalents for outstanding stock options and warrants have been included in the computation of diluted net loss per share for such periods as the impact would be anti-dilutive.

NOTE 10 –COMPREHENSIVE INCOME (LOSS)
There were no other items of comprehensive income or loss, resulting in comprehensive income being the same amount as net income for the six months ended December 31, 2012 and 2011.

NOTE 11 –SHARE BASED COMPENSATION

The Company recognizes the compensation cost relating to share-based payment transactions in the Company's consolidated financial statements. That cost is measured based on the fair value of the equity instruments issued on the date of grant. There was no stock-based compensation expense for the six months ended December 31, 2012. The Company recorded stock-based compensation expense of $18,000 for the six months ended December 31, 2011.

NOTE 12 – RELATED PARTY TRANSACTIONS

Promissory Notes

On September 28, 2011, the Company issued a Promissory Note (the "Promissory Note") in favor of St. George, in exchange for a loan in the amount of $400,000 made by St. George to the Company. See Note 6 "Notes Payable" for additional discussion of the Second Promissory Note.

On December 9, 2011, the Company issued a Promissory Note (the "Second Promissory Note") in favor of St. George, in exchange for a loan in the amount of $300,000 made by St. George to the Company. See Note 6 "Notes Payable" for additional discussion of the Second Promissory Note.

On February 9, 2012, the Company issued a Promissory Note (the "Third Promissory Note") in favor of St. George, in exchange for a loan in the amount of $350,000 made by St. George to the Company. See Note 6 "Notes Payable" for additional discussion of the Third Promissory Note.

On May 16, 2012, the Company issued a Promissory Note (the "Fourth Promissory Note") in favor of St. George in exchange for a loan in the amount of $75,000 made by St. George to the Company. See Note 6 "Notes Payable" for additional discussion of the Fourth Promissory Note.

On August 14, 2012, the Company issued a Promissory Note (the "Fifth Promissory Note") in favor of St. George in exchange for a loan in the amount of $370,000 made by St. George to the Company. See Note 6 "Notes Payable" for additional discussion of the Fifth Promissory Note.

On October 10, 2012, the Company issued a Promissory Note (the "Sixth Promissory Note") in favor of St. George in exchange for a loan in the amount of $50,000 made by St. George to the Company. See Note 6 "Notes Payable" for additional discussion of the Sixth Promissory Note.

Reimbursement Agreement

On June 23, 2011, the Company entered into a Reimbursement Agreement and Mutual Release (the "Reimbursement Agreement") with various parties (collectively, the "Parties"), including Strategic Turnaround Equity Partners, L.P. (Cayman), a Cayman Islands limited partnership ("STEP"), Bruce R. Galloway ("Galloway"), St. George Investments, LLC, an Illinois limited liability company ("St. George"), John M. Fife ("Fife"), and several of their respective affiliates. St. George is controlled by Mr. John M. Fife, who is the Company's Chairman, CEO and President.

Under the Reimbursement Agreement, the Parties agreed to dismiss the litigation between them in the U.S. District Court for the Eastern District of Michigan, the Circuit Court for Wayne County, Michigan, and the Michigan Court of Appeals, as well as to release each other from liability in connection with any issue related to the litigation, in exchange for payments of $5,000 by each of the Company and St. George to STEP (for a total of $10,000). The Parties filed a Joint Stipulation of Dismissal on June 27, 2011.

As part of the Reimbursement Agreement and as further consideration for the releases, STEP, its principals and affiliates, including Galloway, agreed that for 20 years they would not (i) purchase any shares of common stock of the Company ("Common Stock"), (ii) take any insurgent action against the Company, engage in any type of proxy challenge, tender offer, acquisition or battle for corporate control with respect to the Company, (iii) initiate any lawsuit or governmental proceeding against the Company, its affiliates or any of their respective directors, officers, employees or agents, or (iv) take any action that would encourage any of the foregoing.

In addition, under the Reimbursement Agreement, each of the Company and St. George agreed to reimburse STEP in the amount of $225,409 (for a total of $450,819) for expenses incurred by STEP, Galloway and their affiliates in connection with the proxy contest for the election of directors to the Company's Board of Directors (the "Board") in 2010. St. George paid $225,409 in cash on June 27, 2011. The payment of $225,409 by the Company is payable from the proceeds of the sale of artwork owned by the Company. However, the Company's payment obligation was due and payable upon the occurrence of the earlier of (i) the Company's receipt of at least $225,409 from an escrow held in the State of Tennessee, (ii) a refinancing of the Company's credit facility with Fifth Third Bank dated March 31, 2009, as amended June 30, 2011, or (iii) June 12, 2012. The Company was unable to make the required payment at that time.

In connection with the Reimbursement Agreement, Galloway resigned from the Board, on June 23, 2011. In addition, in connection with the Reimbursement Agreement, on June 24, 2011, St. George purchased 774,151 shares of the Common

Stock owned by STEP, Galloway and their affiliates at a price of $0.20112 per share for a total purchase price of $155,697 (the "Stock Purchase"). Finally, pursuant to the Waiver Agreement dated June 23, 2011, between St. George, the Company, STEP, Galloway and others, STEP, Galloway and their affiliates agreed to sell in the open market within 30 days all of their shares of the Company's common stock that were not purchased by St. George. After this 30-day period, STEP, its principals and affiliates, including Galloway, will own no Common Stock and are prohibited from owning Common Stock for 20 years in the future.

On November 14, 2012, the Company entered into a Settlement Agreement and Mutual Release (the "Settlement Agreement") with various parties (collectively, the "Parties"), including Strategic Turnaround Equity Partners, L.P. (Cayman), a Cayman Islands limited partnership ("STEP"), Bruce R. Galloway ("Galloway"), St. George Investments, LLC, an Illinois limited liability company ("St. George"), John M. Fife ("Fife"), and several of their respective affiliates. St. George is controlled by Mr. John M. Fife, who is the Company's Chairman, CEO and President. Under the Settlement Agreement, the Company paid $125,410 to STEP on November 14, 2012. The Company also agreed to assign to STEP the rights to the sale proceeds of certain artwork with a value of $58,500, of which the first installment and second installment totaling $22,500 were paid on November 14, 2012. The Company also assigned to STEP the right to receive an aggregate amount of up to $41,500 in net proceeds from the sale of certain other artwork or from the release of money from an escrow account maintained with the State of Tennessee, whichever occurs first. In exchange for these payments and assignments, which total $225,410, STEP, Galloway and their affiliates have released UAHC from making the $225,410 payment required under the Reimbursement Agreement.

Standstill Agreement

On March 19, 2010, the Company and St. George Investments, LLC ("St. George"), which on that date was a 23.13% owner of the Company, entered into a Voting and Standstill Agreement (the "Standstill Agreement"). See Note 13 for additional discussion of the Standstill Agreement.

Management Services Agreement

The Company paid approximately $58,000 and $51,000 for the six month ended December 31, 2012 and 2011, respectively, to Wacker Services, Inc. an affiliate Company, for consulting services and reimbursements for consulting, rent, and utilities of shared office space.

NOTE 13 - COMMITMENT & CONTINGENCIES

Standstill Agreement

On March 19, 2010, the Company and St. George, which on that date was a 23.13% beneficial owner of the Company, entered into a Voting and Standstill Agreement (the "Standstill Agreement"). St. George is an Illinois limited liability company that is controlled by Mr. John M. Fife, who is the Company's Chairman, CEO and President. On June 7, 2010, the Company and St. George entered into an Amendment to the Voting and Standstill Agreement (the "Amendment"), and then The Dove Foundation ("Dove") entered into a Joinder to the Voting and Standstill Agreement. On June 18, 2010, the Company, St. George and Dove entered into an Acknowledgement and Waiver of Certain Provisions in the Voting and Standstill Agreement, whereby St. George and Dove agreed that the Pulse Systems acquisition shall not be considered a "Triggering Event" under the Standstill Agreement.

Under the Standstill Agreement, St. George and Dove each have the right (the "Put") to require the Company to purchase some or all of its shares of the Company's common stock ("Shares") at an exercise price of $1.26 per share. The Put may be exercised between October 1, 2012 and March 30, 2013 ("Put Exercise Period"). As of December 31, 2012, the put obligation is recorded at a fair value of $5,694,218 in current liabilities in the accompanying consolidated financial statements. If St. George and Dove were to exercise the Put with respect to all of their Shares, assuming that at the time of exercise St. George and Dove own the same number of Shares that they owned at December 31, 2012, then the costs to the Company would be $3,860,319 and $2,020,595, respectively.

The Company had the right (the "Call") to purchase all of the Shares owned by St. George and Dove at an exercise price of $1.26 per Share, if the Call was exercised between July 1, 2011 and September 30, 2011. The Call expired on September 30, 2011.

Also under the Standstill Agreement, the Company agreed to maintain certain reserves of its unrestricted cash on its balance sheet, initially equal to 20% of the Company's pro forma estimate of its 2010 fiscal year end shareholders' equity and then equal to the Company's actual 2010 fiscal year-end shareholders' equity thereafter. The Company was unable to maintain such cash reserves in 2010 and entered into the Amendment, whereby St. George and Dove waived such cash reserve requirement, provided that the Company replaced such cash reserves with other collateral that is reasonably acceptable to St. George. To date, the Company has not replaced such cash reserves with other collateral. As a result, the Company was in default of the Standstill Agreement, which gave St. George and Dove the right to exercise the Put at any time.

Pursuant to the Second Amendment to Voting and Standstill Agreement dated November 3, 2011, each of St. George and Dove agreed to forbear from exercising its Put Option during the then-present Put Exercise Period in exchange for the Company's agreement to postpone the Put Commencement Date until October 1, 2012 (and either or both of St. George and Dove may exercise its Put Option during the Put Exercise Period commencing on such date), provided that the Put Commencement Date would accelerate, and either or both of St. George and Dove may elect to exercise the Put Option upon the occurrence of any one of certain events, including: 1) the Company or Pulse defaults under any loan agreement or debt instrument, including without limitation Pulse's credit facility with Fifth Third Bank, N.A. and any promissory note made by the Company in favor of St. George (including such promissory notes dated September 28, 2011, December 9, 2011, February 9, 2012, August 12, 2012 and at any time thereafter; 2) the Company ceases to be current in its periodic reporting, or 3) ceases to be subject to periodic reporting requirements, under Section 13 of the Securities Exchange Act of 1934, as amended.

On May 15, 2012, the Company entered into the Third Amendment to Voting and Standstill Agreement (the "Third Amendment"). Pursuant to the Third Amendment, St. George and Dove agreed to forbear from exercising their Put Option during the Put Exercise Period whose commencement was accelerated to December 31, 2011, as a result of defaults by the Company under certain loan covenants in its Loan and Security Agreement with Fifth Third Bank, as further described in Note 6 to these Financial Statements. The Third Amendment also reestablished October 1, 2012, as the Put Commencement Date under the Voting and Standstill Agreement and amended the Voting and Standstill Agreement such that any further acceleration of the Put Option will be at the discretion of St. George or Dove, upon the occurrence of certain specified events.

See Note 17 for discussion of subsequent event related to the Standstill Agreement.

Litigation

From time to time, the Company may become involved in litigation relating to claims arising out of its operations in the normal course of business. We are not involved in any pending legal proceeding or litigation and, to the best of our knowledge, no governmental authority is contemplating any proceeding to which we are a party or to which any of our properties is subject, which would reasonably be likely to have a material adverse effect on the Company.

NOTE 14 - RECENTLY ENACTED ACCOUNTING PRONOUNCEMENTS

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board ("FASB") or other standard setting bodies that are adopted by the Company as of the effective dates. Unless otherwise discussed, management believes that the impact of recently issued standards that are not yet effective will not have a material impact on the Company's financial position or results of operations upon adoption.
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NOTE 15 - SETTLEMENT AGREEMENT

On March 27, 2011, the Company and William C. Brooks ("Brooks"), who is the former President and Chief Executive Officer of the Company, entered into a Settlement Agreement and Mutual Full General Release (the "Brooks Settlement Agreement"). In the Brooks Settlement Agreement, the Company agreed to pay Brooks $320,000 in (i) a lump sum of $60,000 on April 4, 2011, (ii) 10 monthly payments of $10,000 commencing June 1, 2011, and (iii) a payment of $160,000 on or before December 31, 2011, out of proceeds from the sale of artwork owned by the Company. The Company made a portion of the payments in cash. On August 10, 2012, the Company transferred the ownership of the artwork with an estimated value of $153,100 to Mr. Brooks to satisfy the balance due under the Settlement Agreement.

NOTE 16 - UNAUDITED SEGMENT FINANCIAL INFORMATION

Summarized financial information for the Company's principal operations, as of and for the six months December 31, 2012 and 2011, is as follows (in thousands):

Six Months Ended December 31, 2012	Management Companies (1)	Contract Manufacturing Services (2)	Corporate & Eliminations	Consolidated Company
Revenue – external customers	$ –	$ 3,834	$ –	$ 3,834
Revenue – intersegment	–	–	–	–
Total revenue	$ –	$ 3,834	$ –	$ 3,834
Earnings (loss) from continuing operations, before income taxes	$ (424)	$ 403	$ –	(21)
As of December 31, 2012				
Segment assets	$ 10,344	$ 14,900	$ (10,092)	$ 15,152

Six Months Ended December 31, 2011	Management Companies (1)	Contract Manufacturing Services (2)	Corporate & Eliminations	Consolidated Company
Revenue – external customers	$ –	$ 3,164	$ –	$ 3,164
Revenue – intersegment	–	–	–	–
Total revenue	$ –	$ 3,164	$ –	$ 3,164
Earnings (loss) from continuing operations, before income taxes	$ (1,092)	$ (71)	$ –	$ (1,163)
As of December 31, 2011				
Segment assets	$ 10,826	$ 15,345	$ (10,145)	$ 16,026

1) Management Companies: United American Healthcare Corporation and United American of Tennessee, Inc.
2) Pulse Systems: Provider of Contract Manufacturing Services to the medical device industry

NOTE 17 - SUBSEQUENT EVENTS

The Company has performed a review of events subsequent to the balance sheet date.

On January 10, 2013, the Company entered into a Fourth Amendment to Voting and Standstill Agreement (the "Fourth Amendment") with St. George and Dove.
The Fourth Amendment further amends the Voting and Standstill Agreement dated March 19, 2010, between the Company and St. George, which was previously amended by (i) the Amendment to Voting and Standstill Agreement dated June 7, 2010, (ii) the Agreement to Join the Voting and Standstill Agreement by Dove dated June 7, 2010, (iii) the Acknowledgment and Waiver of Certain Provisions of the Voting and Standstill Agreement dated June 18, 2010, (iv) the Second Amendment to Voting and Standstill Agreement dated November 3, 2011, and (v) the Third Amendment to Voting and Standstill Agreement dated May 15, 2012 (as so amended, the "Voting and Standstill Agreement").
In connection with the Fourth Amendment, St. George and Dove have agreed to forbear on exercising their rights to cause the Company to purchase their respective shares of the Company's common stock, and the Company has agreed to postpone the "Put Commencement Date" (as defined in the Voting and Standstill Agreement) until October 1, 2013. As a result, the "Put Exercise Period" (as defined in the Voting and Standstill Agreement) will end on March 30, 2014.

Item 2 Management's Discussion and Analysis of Financial Conditions and Results of Operations

Forward-Looking Statements

The following Management's Discussion and Analysis of Financial Condition and Results of Operations and other sections of this report contains various "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements represent our expectations or beliefs concerning future events, including statements regarding future plans and strategy for our business, earnings and the sufficiency of our cash balances and cash generated from operating, investing, and financing activities for our future liquidity and capital resource needs. We caution that although forward-looking statements reflect our good faith beliefs and reasonable judgment based upon current information, these statements are qualified by important factors that could cause actual results to differ materially from those in the forward-looking statements, because of risks, uncertainties, and factors including, but not limited, to: changes in the medical device and healthcare industry; the ongoing impacts of the U.S. recession; the continuing impacts of the global credit and financial crisis; and other changes in general economic conditions. Other risks and uncertainties are detailed from time to time in our reports filed with the SEC, and in particular those set forth under "Risk Factors" in our Annual Report on Form 10-K for fiscal 2012. Given such uncertainties, you should not place undue reliance on any such forward-looking statements. The forward-looking statements included in this report are made as of the date hereof. Except as required by law, we may not update these forward-looking statements, even if new information becomes available in the future.

Overview

This section discusses the Company's results of operations, financial position and liquidity. This discussion should be read in conjunction with the condensed consolidated financial statements and related notes thereto contained in Item 1 of this quarterly report on Form 10-Q.

History

From November 1993 to June 2009, the Company's indirect, wholly owned subsidiary, UAHC Health Plan of Tennessee, Inc. ("UAHC-TN"), was a managed care organization in the TennCare program, a State of Tennessee program that provided medical benefits to Medicaid and working uninsured recipients.

From January 2007 to December 2009, UAHC-TN served as a Medicare Advantage qualified organization (the "Medicare contract") pursuant to a contract with the Centers for Medicare & Medicaid Services ("CMS"). The contract authorized 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.

For all periods presented in the accompanying unaudited condensed consolidated statements of operations, the Companys managed care business has been classified as discontinued operations. Starting at December 31, 2010, the Company reclassified the managed care services of UAHC-TN to discontinued operations based on the fact that the Company completed substantially all of its contractual obligations as of December 31, 2010.

Acquisition of Pulse Systems, LLC

On June 18, 2010, the Company entered into a Securities Purchase Agreement and a Warrant Purchase Agreement to acquire 100% of the outstanding common units and warrants to purchase common units of Pulse. See Note 4 to the Notes to the Unaudited Condensed Consolidated Financial Statements for additional discussion of the purchase terms.

Operating Results

For the Three Months Ended December 31, 2012 Compared
to the Three Months Ended December 31, 2011

Total operating revenues increased $0.5 million to $1.9 million for the three months ended December 31, 2012, over $1.4 million the three months ended December 31, 2011. The increase in revenues is primarily attributable to increased customer order run rates from existing customers as well as new customers. The increase is also attributable to expanded capibilities resulting from the recent equipment investments.

Cost of contract manufacturing services increased by $0.2 million to $1.1 million for the three months ended December 31, 2012 compared to $0.9 million for the three months ended December 31, 2011. The increase in cost of manufacturing services is primarily due to the increase in sales.

Marketing, general and administrative expenses substantially remained the same at $0.6 million for the three months ended December 31, 2012 compared to the three months ended December 31, 2011. Total operating expenses increased $0.2 million to $1.8 million for the three months ended December 31, 2012 as compared to $1.6 million for the three months ended December 31, 2011.

There was no income tax expense for the three months ended December 31, 2012. Income tax expense was $13,000 for the three months ended December 31, 2011. The Company's effective tax rate for both periods of 0% differs from the statutory rate of 34%. This difference is primarily related to an increase in the valuation allowance against the future tax benefit of the current period losses as the Company does not believe that the realization of the benefit is more likely than not.

Loss from continuing operations was $17,000, or $(0.00) per basic share, for the quarter ended December 31, 2012, compared to loss from continuing operations of $0.5 million, or $(0.04) per basic share, for the quarter ended December 31, 2011.

Income from discontinued operations for the quarter ended December 31, 2012 was $16,000 as compared to income from discontinued operations of $18,000 for the quarter ended December 31, 2011. Income from discontinued operations result from claim overpayments that are periodically refunded to UAHC.

Net loss was $1,000 or $(0.00) per basic share for the quarter December 31, 2012 compared to net loss of $0.5 million, or $(0.04) per basic share for the quarter ended December 31, 2011.

For the Six Months Ended December 31, 2012 Compared
to the Six Months Ended December 31, 2011

Total operating revenues were $3.8 million for the six months ended December 31, 2012, compared to $3.2 million for the six months ended December 31, 2011. The increase in revenues of $0.6 million was primarily due to increased customer orders.

Total operating expenses increased $0.2 million or6% to $3.6 million for the six months ended December 31, 2012 as compared to $3.4 million for the six months ended December 31, 2011. The increase is primarily due to the increase in cost of manufacturing services offset by decreased legal costs.

Cost of contract manufacturing services increased $0.4 million to $2.3 million for the six months ended December 31, 2012, as compared to $1.9 million for the six months ended December 31, 2011 The increase in cost of contract manufacturing services is primarily due to increased customer orders.

Marketing, general and administrative expenses decreased $0.1 million or 8% to $1.3 million for the six months ended December 31, 2012 from $1.4 million for the six months ended December 31, 2011. The decrease was principally due to decreased legal expenses.

There was no income tax expense for the six months December 31, 2012. Income tax expense was $21,000 for the six months ended December 31, 2011. The Company's effective tax rate for both periods of 0% differs from the statutory rate of 34%. This difference is primarily related to an increase in the valuation allowance against the future tax benefit of the current period losses as the Company does not believe that the realization of the benefit is more likely than not.

Loss from continuing operations before income taxes was $21,000 for the six months ended December 31, 2012 compared to loss from continuing operations before income taxes of $1.2 million for the six months ended December 31, 2011.

Income from discontinued operations was $103,000, or $0.01 per basic and diluted share, for the six months ended December 31, 2012, compared to income from discontinued operations of $33,000 or $0.00 per basic share, for the six months ended December 31, 2011.

Net income was $82,000, or ($0.01) per basic share, for the six months ended December 31, 2012 compared to net loss of $1.2 million, or ($0.10) per basic share.

Liquidity and Capital Resources

Capital resources, which for us are primarily cash from operations and the Pulse debt facility, are required to maintain our current operations and to fund planned capital spending and other commitments and contingencies. The Company's ability to maintain adequate amounts of cash to meet its future cash needs depends on a number of factors, particularly including controlling corporate overhead costs. Market conditions may continue to limit our sources of funds for these activities and our ability to refinance our debt obligations at their present interest rates and other terms. The Company expects that it will require additional capital within the next 6 months. Absent access to sources of external financial support, including accommodations and financing from affiliates, the Company expects to be at or below minimum levels of cash necessary to operate the business during fiscal 2013. The Company is exploring additional debt or equity financing and other accommodations, including from affiliates such as members of its board of directors. Any such equity financing may result in significant dilution of the Company's existing shareholders.

As a result of the Pulse acquisition, the Company incurred and assumed certain debt obligations including, (a) a non-interest bearing note payable of $1.75 million (secured by a subordinated pledge of all the common units of Pulse) and (b) the funding of $2.5 million for certain obligations of Pulse. The Company also assumed Pulse's outstanding term loan. See "—Acquisition of Pulse Systems, LLC" above for additional discussion.

At December 31, 2012, the Company had (i) cash and cash equivalents and short-term marketable securities of $11,000, compared to $0.2 million at June 30, 2012 and net negative working capital of $8.3 million, compared to net negative working capital of $10.2 million at June 30, 2012. As a result, the Company could go into default on debt or other obligations that may come due within the current fiscal year, including the Company's put obligation, as described further in Note 13 to the Unaudited Consolidated Financial Statements accompanying this report. In addition, the Company's subsidiary, Pulse Systems, LLC, went into default on its obligation to make redemption payments on its preferred units, as described in Notes 7 the Unaudited Consolidated Financial Statements accompanying this report. The Company's management and auditors have concluded that these factors raise substantial doubt as to the Company's ability to continue as a going concern. The consolidated financial statements accompanying this report do not include any adjustments relating to the recoverability of recorded assets, or amounts and classification of recorded assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

In order to provide the Company with the ability to continue its operations, the Company's management has instituted cost savings actions to reduce corporate overhead. To the extent the Company needs to finance our debt or other obligations, or fund capital expenditures or acquisitions, we will need to access the capital markets by, for example, issuing securities in private placements or private investments in public equities ("PIPE") offerings. These financings will probably be highly dilutive to existing shareholders. Market and economic conditions may continue to limit our sources of funds for these activities and our ability to finance our debts or other obligations. We may seek financing from members of our Board of Directors, including Mr. Fife, and their affiliates. We may have no alternatives other than to seek and accept additional financing from these affiliates.

In addition, the Company has liquidated portions of its art collection and is actively pursuing the liquidation of its remaining works to raise cash.

Net cash provided by operating activities of $0.3 million for the six months ended December 31, 2012 was primarily due to increased revenues and claim payment refunds related to the discontinued Medicare operations.

Net cash used in investing activities of $0.2 million for the six months ended December 31, 2012 was due to equipment purchases.

Cash used in financing activities of $0.3 million for the six months ended December 31, 2012 was primarily attributable to payments made to the notes payable to Fifth Third Bank, offset by proceeds from debt borrowings.

Decrease in cash was $0.2 million compared to a decrease in cash of $0.6 million for the six months ended December 31, 2012 and 2011, respectively.

Following its acquisition by the Company, Pulse Systems remains party to the Loan and Security Agreement, as amended (the "Loan Agreement"), with Fifth Third Bank, which currently relates to a revolving loan not to exceed $0.5 million, of which no amounts were outstanding as of December 31, 2012 or June 30, 2012, and a $2.0 million term loan, with a remaining balance of $1.7 million as of December 31, 2012 and $2.4 million as of June 30, 2012. See Note 6 to the Financial Statements accompanying this report.

The Company has incurred an obligation to St. George Investments, LLC ("St. George") and The Dove Foundation pursuant to a put right whereby St. George and The Dove Foundation may put their holdings in Company stock back to the Company at a price of $1.26 per share, payable by the Company, pursuant to the Voting and Standstill Agreement dated March 19, 2010, attached as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 22, 2010. If St. George and The Dove Foundation were to exercise their put rights with respect to all of their shares of Company stock owned as of September 26, 2011, then the costs to the Company would be $3,860,319 and $2,020,595, respectively. For further details, see Note 13 to the Financial Statements accompanying this report.

In connection with the acquisition of Pulse, Pulse Systems also entered into a Redemption Agreement, dated June 18, 2010 (the "Redemption Agreement"), with Pulse Systems Corporation, the holder of all of the outstanding preferred units in Pulse Systems. The aggregate redemption price is $3.99 million for the preferred units, including the accrued but unpaid return on such units, which reflects a $0.83 million reduction from the actual outstanding amount as of the date of the agreement. In addition, the 14% dividend rate on the preferred units is eliminated, subject to reinstatement if there is a default as explained in the next sentence. Failure to make any of the redemption payments would result in the increase of the redemption price for its preferred units by $0.83 million and a 14% per annum cumulative (but not compounded) return on the aggregate amounts of the unredeemed preferred units plus the $0.83 million commencing on the date of default. Pulse Systems Corporation agreed to the redemption of its preferred units over a two-year period, commencing with a cash payment made at closing of $1.75 million. On August 30, 2011, St. George Investments purchased the preferred stock held by Pulse Corporation in Pulse Systems, LLC. The obligations of Pulse Systems under the redemption agreement are subordinate to its obligations under the Loan Agreement and Pledge Agreement. On January 1, 2012, Pulse Systems was in default of the Redemption Agreement. As a result, the $0.83 million reduction from the amount outstanding at June 18, 2010 was reinstated. In addition, 14% interest on the preferred amount began from the default date of January 1, 2012. The redeemable preferred units were recorded in the December 31, 2012 and June 30, 2012 consolidated balance sheets at a value of approximately $2.7 million and $2.5 million, respectively, discounted using an interest rate of 12%.

On September 28, 2011, the Company issued a promissory note to St. George in the principal amount of $400,000, in exchange for a loan in the amount of $400,000 by St. George to the Company. On December 9, 2011, the Company issued a Promissory Note (the "Second Promissory Note") in favor of St. George, in exchange for a loan in the amount of $300,000 made by St. George to the Company. On February 9, 2012, the Company issued a Promissory Note (the "Third Promissory Note") in favor of St. George, in exchange for a loan in the amount of $350,000 made by St. George to the Company. On May 16, 2012, the Company issued a Promissory Note (the "Fourth Promissory Note") in favor of St. George, in exchange for a loan in the amount of $75,000 made by St. George to the Company. On August 14, 2012, the Company issued a Promissory Note (the "Fifth Promissory Note") in favor of St. George, in exchange for a loan in the amount of $370,000 made by St. George to the Company. Loan proceeds from the Fifth Promissory Note were transferred by the Company to Pulse. On October 10, 2012, the Company issued a Promissory Note (the "Sixth Promissory Note") in favor of St. George in exchange for a loan in the amount of $50,000 made by St. George to the Company. See Note 6 to the Financial Statements accompanying this report.

Item 4. Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive and financial officers, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2012. Based upon that evaluation, our principal executive and financial officers have concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report to provide reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and is accumulated and communicated to our management, including our principal executive and financial officers, as appropriate to allow timely decisions regarding required disclosure.

There was no change in our internal control over financial reporting during our first quarter ended December 31, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

Other than discussed below, there are no material changes to the risk factors previously disclosed in Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended June 30, 2012 and otherwise subsequently disclosed in our reports filed with the SEC. You should carefully consider the risks and uncertainties we describe in such report and in other reports filed or furnished thereafter with the SEC before deciding to invest in or retain shares of our common stock. If any of these risks or uncertainties actually occurs, our business, financial condition, operating results or liquidity could be materially and adversely affected.

We expect that we will require additional capital within the next 6 months.

Absent access to sources of external financial support, including accommodations and financing from affiliates, the Company expects to be at or below minimum levels of cash necessary to operate the business during fiscal 2013. The Company is exploring additional debt or equity financing and other accommodations, including from affiliates such as members of its board of directors. Any such equity financing may result in significant dilution of the Company's existing shareholders. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources" elsewhere in this report.

Item 6. Exhibits

31.1*	Certification 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*	Certification 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*	Certification 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.

* Filed herewith

Signatures

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

United American Healthcare Corporation

Date: February 19, 2013 By: /s/ John M. Fife
John M. Fife
Chairman, President & Chief Executive Officer
(Principal Executive Officer)

Date: February 19, 2013 By: /s/ Robert Sullivan
Robert Sullivan
Chief Financial Officer, Secretary & Treasurer
(Principal Financial Officer)

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