UNITED AMERICAN HEALTHCARE CORP
Form 10-Q
May 17, 2010

United States
Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2010

Or

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

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**

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 þ 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 o No o

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 o (Do not check if a smaller reporting company)	Small reporting company þ

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

The number of outstanding shares of registrant s common stock as of May 10, 2010 is 8,164,117.

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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, 2010 (Unaudited)	June 30, 2009
Assets		
Current assets		
Cash and cash equivalents	$ 9,416	$ 13,100
Marketable securities		4,475
Accounts receivable State of Tennessee, net	13	39
Other receivables	83	1,419
Prepaid expenses and other	281	215
Total current assets	9,793	19,248
Property and equipment, net	14	134
Marketable securities restricted	2,370	2,370
Other assets	486	486
Total assets	$ 12,663	$ 22,238
Liabilities and Shareholders Equity		
Current liabilities		
Medical claims payable	$ 360	$ 2,160
Accounts payable and accrued expenses	712	1,228
Accrual for legal settlement		3,250
Accrued compensation and related benefits	292	388
Other current liabilities	48	57
Total current liabilities	1,412	7,083
Total liabilities	1,412	7,083
Commitments and contingencies		
Shareholders equity		
Preferred stock, 5,000,000 shares authorized; none issued		
Common stock, no par, 15,000,000 shares authorized 8,164,117 and 8,137,903 issued and outstanding at March 31, 2010 and June 30, 2009, respectively	17,711	17,684
Additional paid in capital stock options	1,660	1,480
Additional paid in capital warrants	444	444
Accumulated deficit	(8,535)	(4,444)
Accumulated other comprehensive loss, net of tax	(29)	(9)

Total shareholders equity	11,251	15,155
Total liabilities and shareholders equity	$ 12,663	$ 22,238

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,	
	2010	**2009**	**2010**	**2009**
Revenues				
Fixed administrative fees	$	$	$	$ 4,596
Variable administrative fees			345	944
Medical premiums	14	2,612	3,130	7,869
Total revenues	14	2,612	3,475	13,409
Expenses				
Medical expenses (reduction)	(277)	2,651	2,752	7,441
Marketing, general and administrative	1,681	3,094	4,799	10,425
Depreciation and amortization	40	32	120	149
Loss on disposal of fixed assets		1		136
Total expenses	1,444	5,778	7,671	18,151
Operating loss	(1,430)	(3,166)	(4,196)	(4,742)
Interest and other income	29	102	105	584
Loss before income tax	(1,401)	(3,064)	(4,091)	(4,158)
Income tax expense (benefit)		(40)		40
Net loss	$ (1,401)	$ (3,024)	$ (4,091)	$ (4,198)
Net loss per common share basic and diluted				
Net loss per common share	$ (0.17)	$ (0.35)	$ (0.50)	$ (0.48)
Weighted average shares outstanding	8,149	8,565	8,142	8,677

See accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

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

	Nine Months Ended March 31, 2010	Nine Months Ended March 31, 2009
Operating activities		
Net loss	$ (4,091)	$ (4,198)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	120	149
Asset write-off		421
Loss on disposal of fixed assets		136
Stock-based compensation	180	259
Payment of legal settlement	(3,250)	
Stock awards	27	108
Net changes in other operating assets and liabilities	(1,125)	(474)
Net cash used in operating activities	(8,139)	(3,599)
Investing activities		
Proceeds from sale of marketable securities	6,879	28,840
Purchase of marketable securities	(2,424)	(23,972)
Purchase of property and equipment		(3)
Proceeds from sale of property and equipment		20
Net cash provided by investing activities	4,455	4,885
Financing activities		
Purchase of treasury stock		(981)
Net cash used in financing activities		(981)
Net increase (decrease) in cash and cash equivalents	(3,684)	305
Cash and cash equivalents at beginning of period	13,100	10,713
Cash and cash equivalents at end of period	$ 9,416	$ 11,018
Supplemental disclosure of cash flow information		
Income taxes paid	$	$ 130

See accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

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United American Healthcare Corporation and Subsidiaries
Notes to the Unaudited Condensed Consolidated Financial Statements

NOTE 1 BASIS OF PREPARATION

The accompanying unaudited condensed consolidated financial statements include the accounts of United American Healthcare Corporation, a Michigan corporation, and its wholly-owned subsidiaries (together referred to as the Company, we, us, or our). 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.

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 three and nine months ended March 31, 2010 are not necessarily indicative of the results of operations expected for the full fiscal year ended June 30, 2010 (fiscal 2010) or for any other period. The accompanying interim unaudited condensed consolidated financial statements should be read in conjunction with our annual consolidated financial statements contained in our most recent annual report on Form 10-K filed with the Securities and Exchange Commission (SEC) on September 24, 2009.

Reclassifications were made to the prior period balance sheet in order to conform with the March 31, 2010 presentation.

NOTE 2 COMPREHENSIVE LOSS

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

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2010	2009	2010	2009
Net loss	$ (1,401)	$ (3,024)	$ (4,091)	$ (4,198)
Unrealized holding gain (loss), net of tax	29	(22)	(20)	73
Comprehensive loss	$ (1,372)	$ (3,046)	$ (4,111)	$ (4,125)

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NOTE 3 NET LOSS PER COMMON SHARE

Basic net loss per share excluding dilution has been computed by dividing net loss by the weighted average number of common shares outstanding for the period. Diluted 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, 2010 and 2009, 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 loss per share for such periods as the impact would be anti-dilutive.

NOTE 4 INCOME TAXES

In accordance with GAAP, the Company periodically assesses whether valuation allowances against its deferred tax assets are adequate based on the consideration of all available evidence. The Company s effective tax rate for the three and nine months ended March 31, 2010 is zero percent (0%) and differs from the statutory rate of 34%. The 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.

The Company recognizes 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 Company had no unrecognized tax benefits as of March 31, 2010. The Company expects no significant increases or decreases in unrecognized tax benefits due to changes in tax positions within one year of March 31, 2010. The Company has no interest or penalties relating to income taxes recognized in the condensed consolidated statement of operations for the three and nine months ended March 31, 2010 or in the condensed consolidated balance sheet as of March 31, 2010.

NOTE 5 TENNESSEE OPERATIONS

The Company s indirect, wholly owned subsidiary, UAHC Health Plan of Tennessee, Inc. (UAHC-TN), was for many consecutive years a managed care organization in the TennCare program, a State of Tennessee program that provided medical benefits to Medicaid and working uninsured recipients. 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 present TennCare contract expired on June 30, 2009. On November 1, 2008, UAHC-TN s TennCare members transferred to other managed care organizations, after which UAHC-TN continued to perform its remaining contractual obligations through its TennCare contract discontinuance date of June 30, 2009. However, fixed fee revenue under this contract was only earned through October 31, 2008. Modified Risk Arrangement (MRA) of $0.3 million was received in fiscal 2010 that related to fiscal 2009. Revenue

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under the Tenncare contract represented 10% and 41% of the Company s total revenue for the nine months ended March 31, 2010 and 2009, 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 Prescription Drug Plan, both beginning January 1, 2007. The contract term was through December 31, 2009. The Company did not seek renewal of this contract. There has been no enrollees in UAHC-TN s Medicare Advantage Special Needs Plan since December 31, 2009. The Company continued to process claims for the Medicare Advantage plan through April 30, 2010.

The Company recognizes a liability for certain costs associated with an exit or disposal activity and measures the liability initially at its fair value in the period in which the liability is incurred. The costs recognized include employee termination benefits, lease termination and costs to relocate the Company s facility. The following table summarizes certain exit costs resulting from the discontinuance of the TennCare and CMS contracts (in thousands):

Item	Balance at July 1, 2009	Expense/ Adj.*	Payments	Balance at March 31, 2010
Workforce reduction	$ 142	$ 99	$ (94)	$ 147
Lease abandonment, net	17		(9)	8
Total	$ 159	$ 99	$ (103)	$ 155

* Amount includes forfeited employee retention benefits.

The cumulative costs incurred through March 31, 2010 amounted to $1.1 million. These costs are included in marketing, general and administrative expenses in our statement of operations. Approximately $0.3 million of these costs related to the Management Companies and $0.8 million relate to the HMO & Managed Plan. In connection with the discontinuance of the TennCare and CMS contracts, the Company reduced its workforce, subleased its leased Tennessee facility to a third party effective April 2009 and ending December 31, 2010, and relocated the Tennessee office. The discontinuance of the TennCare and CMS contracts has had a material adverse impact on the Company s operations and financial statements.

NOTE 6 STOCK OPTION PLANS

The Company recognizes the compensation cost relating to share-based payment transactions in the Company s financial statements. That cost is measured based on the fair value of the equity instruments issued on the date of grant. The Company recorded stock-based compensation expense of $0.1 million for each of the three months ended March 31, 2010 and 2009 and $0.2 million and $0.3 million for the nine months ended March 31, 2010 and 2009, respectively.

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NOTE 7 FAIR VALUE

The Company s unaudited condensed consolidated balance sheets include the following financial instruments: cash and cash equivalents, marketable securities, receivables, accounts payable, medical claims and benefits payable, and other liabilities. The Company considers the carrying amounts of cash and cash equivalents, receivables, other current assets and current liabilities to approximate their fair value because of the relatively short period of time between the origination of these instruments and their expected realization or payment.

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 mode. 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 Condensed Consolidated Balance Sheet as of March 31, 2010:

	Fair Value Measurements			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Marketable Securities- long-term	$2,370			$2,370

The Company classifies its short-term marketable securities as available-for-sale which are reported at fair market value. Unrealized gains and losses, to the extent such gains and losses are considered temporary in nature, are included in accumulated other comprehensive loss, net of tax. At such time as the decline in fair market value and the related unrealized loss is determined to be a result of impairment of the underlying instrument, the loss is recorded as a charge to earnings. Fair values for marketable securities are based upon market prices.

NOTE 8 MEDICAL CLAIMS LIABILITY AND EXPENSE (REDUCTION)

The Company recorded a liability of $0.4 million and $2.2 million at March 31, 2010 and June 30, 2009, respectively, for unpaid medical claims incurred by enrollees. The medical claims liability as of March 31, 2010 represents the remaining liability for services that have been performed by providers for the Company s Medicare Advantage members prior to December 31, 2009. Included in the expense related to the period are medical claims reported to UAHC-TN as well as claims that have been incurred but not yet reported to it, or IBNR . The IBNR component is primarily based on medical cost estimates from historical

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data provided by CMS and emerging medical claims experience together with current factors. The IBNR reserve estimated at March 31, 2010 and June 30, 2009, was derived by an independent actuarial analysis. Each quarter, the Company re-examines the previously established medical claims liability estimates based on actual claim submissions and other relevant changes in facts and circumstances. As the liability estimates recorded in prior periods become more exact, the Company will increase or decrease the amount of the estimates, and include the changes in medical expenses in the period in which the change is identified. The ultimate settlement of medical claims may vary from the estimated amounts reported and the difference could be material. The Company adjusted the medical expense for the three months ended March 31, 2010 based on the actuarial report, which resulted in a reduction of expense of $0.3 million.

NOTE 9 ACCRUED COMPENSATION AND RELATED BENEFITS

The Company has a retention and severance agreement with the Company s Chief Executive Officer, William C. Brooks, to incentivize his continued service to the Company. This agreement was dated and effective as of October 31, 2008, the date on which the agreement was approved by the Company s board of directors. As of March 31, 2010, the Company had accrued $0.1 million related to such executive retention and severance agreement. These amounts have been reflected in exit costs disclosed in Note 5 above. The Company has a potential remaining liability of $0.1 million related to such agreements.

NOTE 10 LEGAL SETTLEMENT

The Company was a defendant with others in a lawsuit that commenced in February 2005 in the Circuit Court for the 30th Judicial Circuit, in the County of Ingham, Michigan, Case No. 05127CK, entitled Provider Creditors Committee on behalf of Michigan Health Maintenance Organizations Plans, Inc. v. United American Healthcare Corporation and others, et al. On September 22, 2009, the Company settled this litigation for $3.3 million and all claims have been dismissed against the Company and the individuals. In the fourth quarter of fiscal 2009, the Company recorded a provision for this legal settlement of $3.1 million, which was net of the insurance reimbursement of $0.2 million in the fiscal year 2009 statement of operations. As of December 31, 2009, the related liability of $3.3 million was paid in full. The Company recovered $0.2 million through insurance in January 2010.

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NOTE 11 UNAUDITED SEGMENT FINANCIAL INFORMATION

Summarized financial information for the Company s principal operations, as of and for the three and nine months ended March 31, 2010 and 2009, is as follows (in thousands):

Three Months Ended March 31, 2010	Management Companies (1)	HMO & Managed Plan (2)	Corporate & Eliminations	Consolidated Company
Revenue external customers	$	$ 14	$	$ 14
Revenue intersegment	3,400		(3,400)	
Total revenue	$ 3,400	$ 14	$ (3,400)	$ 14
Net earnings (loss)	$ 1,696	$ (3,097)	$	$ (1,401)
Depreciation and amortization	40			40
As of March 31, 2010				
Segment assets	$ 35,800	$ 6,180	$ (29,317)	$ 12,663

Nine Months Ended March 31, 2010	Management Companies (1)	HMO & Managed Plan (2)	Corporate & Eliminations	Consolidated Company
Revenue external customers	$	$ 3,475	$	$ 3,475
Revenue intersegment	3,743		(3,743)	
Total revenue	$ 3,743	$ 3,475	$ (3,743)	$ 3,475
Net loss	$ (1,081)	$ (3,010)	$	$ (4,091)
Depreciation and amortization	120			120
As of March 31, 2010				
Segment assets	$ 35,800	$ 6,180	$ (29,317)	$ 12,663

Three Months Ended March 31, 2009	Management Companies (1)	HMO & Managed Plan (2)	Corporate & Eliminations	Consolidated Company
Revenue external customers	$	$ 2,612	$	$ 2,612
Revenue intersegment	3,618		(3,618)	
Total revenue	$ 3,618	$ 2,612	$ (3,618)	$ 2,612
Net earnings (loss)	$ 678	$ (3,702)	$	$ (3,024)

Depreciation and amortization	32			32
As of March 31, 2009				
Segment assets	$ 54,116	$ 14,862	$ (45,024)	$ 23,954

Nine Months Ended March 31, 2009	**Management Companies (1)**	**HMO & Managed Plan (2)**	**Corporate & Eliminations**	**Consolidated Company**
Revenue external customers	$	$ 13,409	$	$ 13,409
Revenue intersegment	10,105		(10,105)	
Total revenue	$ 10,105	$ 13,409	$ (10,105)	$ 13,409
Net loss	$ (27)	$ (4,171)	$	$ (4,198)
Depreciation and amortization	149			149
Purchase of equipment	3			3
As of March 31, 2009				
Segment assets	$ 54,116	$ 14,862	$ (45,024)	$ 23,954

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

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

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NOTE 12 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.

NOTE 13 COMMITMENTS & CONTINGENCIES

Standstill Agreement

On March 19, 2010, the Company and St. George Investments, LLC (St. George), a 23.3% beneficial owner of the Company, entered into a Voting and Standstill Agreement (the Standstill Agreement). Under the Standstill Agreement, St. George has agreed to, among other things,

Withdraw its slate of nominees for election to the Board and to vote in favor of the candidates nominated by the Board for election at the Company s upcoming annual meeting. St. George also agreed for a minimum period of 18 months to customary standstill provisions;

Vote all shares it currently beneficially owns or thereafter may acquire (collectively Shares) as recommended by a majority of the Board and it granted an irrevocable proxy to effectuate the voting agreement (the Voting Agreement); and

Not acquire beneficial ownership of shares of common stock that would represent more than 35% of the issued and outstanding common stock of the Company (excluding shares acquired upon conversion of any preferred stock issued to St. George pursuant to the Capital Call (as defined below)).

The Standstill Obligations and the Voting Agreement continue until March 31, 2012, unless earlier terminated if the Put (as defined below) is exercised or if there is an event of default (as defined in the Standstill Agreement). The Put can be exercised beginning on October 1, 2011 and expires March 31, 2012. However, as of March 19, 2010, the Put can be accelerated at any time immediately upon the occurrence of certain events of default, which are: a breach of the Standstill Agreement that is not cured within 10 days of receipt of notice of such breach; the insolvency of or a bankruptcy petition filed by the Company; a judgment against the Company in excess of $2 million, which is not stayed or discharged within 60 days and which results in the Company having insufficient cash on hand to satisfy the put obligations; the Company s delinquency in its periodic reporting obligations under Section 13 of the Exchange Act; the Company s common shares are delisted from Nasdaq or fail to be quoted on the OTC Bulletin Board; in the event of an exercise of the Company s right to require St. George Investments, LLC to invest $600,000 in the Company (the Capital Call),

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Notes to the Unaudited Condensed Consolidated Financial Statements

an event of default occurs under the certificate of designations that govern the preferred shares issued pursuant to the Capital Call.

The Company has the right to purchase all of the Shares (the Call) and St. George has the right to require the Company to purchase some or all of the Shares (the Put). The Put price is $1.26. The Company may exercise the Call at $1.14 per share, the Call is exercised on or prior to June 30, 2011. If the Call occurs between July 1, 2011 and September 30, 2011, the Call price is the same as the Put price. The Call expires upon the earliest of September 30, 2011 and a Triggering Event which is defined to mean the Company s execution of a letter of intent for a business combination, the Company s execution of definitive documents for a business combination and the Company s public announcement of a business combination. A business combination would include an acquisition of the Company or by the Company.

St. George has granted to the Company the right, commencing May 1, 2010, to require St. George to invest $600,000 in the Company (the Capital Call). The Capital Call expires upon the earlier of July 1, 2011 and the Company s filing of a registration statement for St. George s shares. If the Capital Call is exercised, St. George would be issued that number of shares of a newly designated series of non-voting convertible preferred stock (the Preferred Stock) based on the dollar volume weighted average closing price of the Company s common stock for the 30 calendar days prior to the date of the issuance of the shares of Preferred Stock; however, if there is a Triggering Event, the calculation would be based on the 30 calendar pays prior to the Triggering Event. The Preferred Stock would be convertible at any time at the option of St. George into shares of the Company s common stock at a ratio of 1:1, with such conversion ratio subject to adjustment in the event of certain stock splits or dividends or in the event of a business combination or similar transaction. The Preferred Stock would have a 3% per annum dividend which, at the option of the Company, would be payable in cash or in additional shares of Preferred Stock. The common shares acquired upon conversion of the Preferred Stock is subject to the Company s Call right, and the holder of the Preferred Stock has a Put right, on the same terms and conditions as are applicable to the shares of common stock beneficially owned by St. George. In no event would the aggregate number of shares of common stock issued to St. George upon conversion of the Preferred Stock exceed 20% of the outstanding shares of common stock prior to such issuance, unless the Company obtains shareholder approval if required by the Nasdaq Rules. The terms of the Preferred Stock are set forth in the Certificate of Designation which is an exhibit to the Standstill Agreement. The Certificate of Designation would be filed by the Company concurrently with exercise of the Capital Call.

The Company has 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. The Company s pro forma estimate of shareholders equity as of 2010 fiscal year end is approximately $11 million, which would require a corresponding reserve of approximately $2.2 million.

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As additional restricted cash becomes unrestricted, the Company must reserve additional amounts which, together with the prior reserves, equal the total Put obligation. St. George currently owns 23.3% of the Company, which corresponds to a minimum reserve of approximately $2.4 million. The Standstill Agreement permits St. George to own up to 35% of the Company s issued and outstanding common shares, which correspond to a maximum reserve of $3.6 million.

Additionally, if the Capital Call was exercised (either at the Company s option or due to a Triggering Event), the Company would have to reserve cash to satisfy the put on the preferred shares issued pursuant to the Capital Call, in addition to the amounts reserved for the Company s put obligations on the common stock. The reserve for the put on the preferred shares cannot be calculated until the Capital Call is exercised because although the price of the put on the preferred shares is set at $1.26, the number of preferred shares issued pursuant to the Capital Call is based upon the dollar volume weighted average closing price of the Company s common stock for the 30 calendar days prior to the date of the issuance of the preferred shares, or if there a Triggering Event, the calculation would be based on the 30 calendar days prior to the Triggering Event.

Lawsuit

On March 31, 2010, Strategic Turnaround Equity Partners, L.P. (Cayman) (STEP) filed suit against the Company, Thomas Goss (Chairman of the Company s Board), John Fife and Fife affiliates (Fife) in the United States District Court for the Eastern District of Michigan, Case No. 10-cv-11305, seeking an injunction against a proxy solicitation by the Company, voting of Fife shares, and implementation of a Voting and Standstill Agreement dated March 19, 2010 between the Company and St. George Investments, LLC, one of the Fife affiliates. STEP alleged that the Company s preliminary proxy materials for the 2010 annual meeting of shareholders violated Section 14(a) of the Securities Exchange Act of 1934, that Fife was prohibited from voting shares by virtue of a provision in the Company s Articles of Incorporation and that the Voting and Standstill Agreement violated the Company s Articles of Incorporation and Michigan law. On April 7, 2010, STEP sought an order directing the holding of the Company s annual meeting on April 23, 2010. On April 9, 2010, the district court denied STEP s motion relating to the April 23, 2010 meeting. On April 28, 2010, the Company filed a motion to dismiss STEP s lawsuit. STEP has since filed a motion for summary judgment. A hearing has been scheduled for June 15, 2010. The potential loss, if any, for the Company relating to this lawsuit is not determinable at this time.

NOTE 14 SUBSEQUENT EVENT

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

Item 2. Management s Discussion and Analysis of Financial Condition 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: the ongoing impact of the U.S. recession, the termination of the TennCare contract, the wind-down of the CMS contract, the review of strategic alternatives, the ongoing impact of the global credit and financial crisis and other changes in general economic conditions, and adverse changes in the health care industry. Other risks and uncertainties are detailed from time to time in reports filed with the SEC, and in particular those set forth under Risk Factors in our Annual Report on Form 10-K for fiscal 2009. Given such uncertainties, you should not place undue reliance on any such forward-looking statements. Except as required by law, we may not update these forward-looking statements, even if new information becomes available in the future.

Overview

We intend for the following discussion and analysis regarding the Company s results of operations, financial position and liquidity to provide you with information that will assist you in understanding our condensed consolidated financial statements. This discussion and analysis should be read in conjunction with our condensed consolidated financial statements and related notes contained in this quarterly report.

The Company provided 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. From November 1993 to June 30, 2009, UAHC-TN had a contract with the State of Tennessee, Bureau of TennCare (TennCare), to arrange for the financing and delivery of healthcare 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.

On November 1, 2008, UAHC-TN s TennCare members transferred to other managed care organizations, after which UAHC-TN continued to perform its remaining contractual obligations through its TennCare contract discontinuance date of June 30, 2009. However,

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fixed fee revenue under this contract was only earned through October 31, 2008. Modified Risk Arrangement (MRA) of $0.3 million was received in fiscal 2010 related to fiscal 2009. Revenue under the TennCare contract represented 0% of the Company s total revenue for the three months ended March 31, 2010 and 2009, and 10% and 41% for the nine months ended March 31, 2010 and 2009, respectively. The discontinuance of the TennCare contract has had a material adverse impact on the Company s operations and financial statements. As of March 31, 2010, there were no TennCare enrollees in UAHC-TN.

On October 10, 2006, UAHC-TN entered into a contract with the Centers for Medicare & Medicaid Services (CMS) to act as a Medicare Advantage qualified organization. The contract authorizes UAHC-TN to serve members enrolled in both the Tennessee Medicaid and Medicare programs, commonly referred to as dual-eligibles, specifically to offer a Special Needs Plan to its eligible members in Shelby County, Tennessee (including the City of Memphis), and to operate a Voluntary Medicare Prescription Drug Plan, both beginning January 1, 2007. The contract term was through December 31, 2009. The Company did not seek renewal of this contract. As of March 31, 2010, there were no members in the UAHC s Medicare Advantage Special Needs Plan (our MA-SNP).

The total number of employees of the Company at March 31, 2010 was 7 compared to 25 at March 31, 2009. The discontinuance of the TennCare and the CMS contracts has resulted in a substantial decrease in the total number of employees.

Due to the discontinuance of the TennCare and the CMS contracts, our board of directors and management have been engaged in a review of a variety of long-term strategic alternatives with the objective of pursuing a strategic alternative that satisfies three primary objectives: providing significant revenues; providing immediate positive EBITDA; and having long-term growth opportunities. During this review, all feasible options are being considered, including pursuing a joint venture or other strategic partnership, completing a strategic acquisition or merger, or liquidating our assets. Further, it is important to note that the exploration of strategic alternatives includes all industries that satisfy the three primary objectives, not solely the healthcare industry.

Since 2005, the Company had been a defendant in a lawsuit as described in Note 10 to the unaudited condensed consolidated financial statements. In September 2009, the lawsuit was settled and paid for $3.3 million. The settlement is offset by an insurance recovery of $0.2 million.

Operating Results

For the Three Months Ended March 31, 2010 Compared to the Three Months Ended March 31, 2009

Total revenues decreased to $0.01 million for the three months ended March 31, 2010, compared to $2.6 million for the three months ended March 31, 2009. The decrease was principally due to the discontinuance of its managed care services as a TennCare contractor and as a CMS Medicare Advantage provider as described in the overview to this section and in Note 5 to our Unaudited Condensed Consolidated Financial Statements.

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There were no fixed or variable administrative fees for the three months ended March 31, 2010 and 2009.

Our MA-SNP medical premiums revenues were $0.01 for the three months ended March 31, 2010 compared to $2.6 million for the three months ended March 31, 2009. The decrease is attributable to the discontinuance of the CMS contract.

Total expenses decreased $4.3 million (75%) to $1.4 million for the three months ended March 31, 2010 as compared to $5.8 million for the three months ended March 31, 2009. The decrease in total expenses was primarily the result of a decrease in marketing, general and administrative expenses and medical expenses.

Medical expenses for our MA-SNP decreased $2.9 million to ($0.3) million for the three months ended March 31, 2010 compared to $2.7 million for the three months ended March 31, 2009. The decrease in medical expenses is primarily attributable to the discontinuance of the CMS contract. See Note 8 to our Unaudited Condensed Consolidated Financial Statements for additional information on medical expenses.

Marketing, general and administrative expenses decreased $1.4 million (46%) to $1.7 million for the three months ended March 31, 2010 from $3.1 million for the three months ended March 31, 2009. The decrease was principally due to reductions in labor costs, adminstrative costs and professional services expenses.

There was no income tax expense for the three months ended March 31, 2010 compared to ($0.04) million for the three months ended March 31, 2009. The Company s effective tax rate for the three months ended March 31, 2010 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.

Depreciation and amortization expense was $0.04 million for the three months ended March 31, 2010, a slight increase from $0.03 million for the three months ended March 31, 2009.

Loss before income taxes was $1.4 million for the quarter ended March 31, 2010 compared to loss before income taxes of $3.1 million for the quarter ended March 31, 2009.

Net loss was $1.4 million, or ($0.17) per basic share, for the quarter ended March 31, 2010, compared to net loss of $3.0 million, or $(0.35) per basic share, for the quarter ended March 31, 2009.

For the Nine Months Ended March 31, 2010 Compared to
Nine Months Ended March 31, 2009

Total revenues decreased $9.9 million (74%) to $3.5 million for the nine months ended March 31, 2010, compared to $13.4 million for the nine months ended March 31, 2009. The decrease was principally due to the discontinuance of its managed care services as a TennCare contractor and the discontinuance of the CMS contract, as described in the overview to this section and in Note 5 to our Unaudited Condensed Consolidated Financial Statements.

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The fixed administrative fees decreased by $4.6 million to $0 for the nine months ended March 31, 2010, compared to $4.6 million for the nine months ended March 31, 2009. The decrease is due to the discontinuance of its managed care services as a TennCare contractor.

Variable administrative fees resulting from MRA revenue were $0.3 million for the nine months ended March 31, 2010, compared to $0.9 million for the nine months ended March 31, 2009. The $0.3 million received in fiscal 2010 related to fiscal 2009. The $0.9 million MRA revenue received in fiscal 2009 relates to fiscal 2008.

Our MA-SNP medical premiums revenues were $3.1 million for the nine months ended March 31, 2010 compared to $7.9 million for the nine months ended March 31, 2009. The decrease of $4.7 million is attributable to the discontinuance of the CMS contract.

Our MA-SNP per member per month premium rate for the nine months ended March 31, 2010 was $1,123 compared to $1,153 for the nine months ended March 31, 2009.

Total expenses decreased $10.5 million to $7.7 million for the nine months ended March 31, 2010 as compared to $18.2 million for the nine months ended March 31, 2009. The decrease is primarily due to a decrease in marketing, general and administrative expenses and medical expenses.

Medical expenses for our MA-SNP were $2.8 million for the nine months ended March 31, 2010, compared to $7.4 million for the nine months ended March 31, 2009. The decrease in medical expenses is attributable to the discontinuance of the MA-SNP plan partially offset by an increase in outpatient claims. The ratio of such medical expenses to medical premiums revenues for our MA -SNP, expressed as a percentage the medical loss ratio was 89.5% for the nine months ended March 31, 2010.

Marketing, general and administrative expenses decreased $5.6 million (54%) to $4.8 million for the nine months ended March 31, 2010 from $10.4 million for the nine months ended March 31, 2009. The decrease was principally due to reductions in labor costs, adminstrative costs and professional services expenses resulting from the discontinuance of the TennCare contract and the CMS contract.

Depreciation and amortization expense was $0.1 million for the nine months ended March 31, 2010 and 2009.

There was no income tax expense for the nine months ended March 31, 2010 compared to income tax expense of $0.04 million for the nine months ended March 31, 2009. The Company s effective tax rate for the nine months ended March 31, 2010 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 before income taxes was $4.1 million for the nine months ended March 31, 2010 compared to loss before income taxes of $4.2 million for the nine months ended March 31, 2009.

Net loss was $4.1 million, or ($0.50) per basic share, for the nine months ended March 31, 2010, compared to net loss of $4.2 million, or ($0.48) per basic share, for the nine months

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ended March 31, 2009. The decrease is primarily due to the decrease in overall revenue resulting from the discontinuance of the TennCare contract and the CMS contract.

Liquidity and Capital Resources

Capital resources, which for us is primarily cash from operations, are required to maintain our current operations and other commitments and contingencies. Capital resources may also be used for strategic alternatives which may include merger and/or acquisitions. We have no indebtedness as of March 31, 2010.

As described in the overview to this section and Note 5 to our Unaudited Condensed Consolidated Financial Statements in Part I, Item 1, the Company ceased providing managed care services as a TennCare contractor on June 30, 2009. The discontinuance of the TennCare contract has had a material adverse impact on the Company s operations and financial statments. In addition, the CMS contract expired as of December 31, 2009. The Company did not seek renewal of this contract. The discontinuance of the CMS contract has had and will continue to have a material adverse impact on the Company s operations and financial statements.

At March 31, 2010, the Company had (i) cash and cash equivalents and short-term marketable securities of $9.4 million, compared to $17.6 million at June 30, 2009; (ii) working capital of $8.4 million, compared to working capital of $12.2 million at June 30, 2009; and (iii) a current assets-to-current liabilities ratio of 6.94-to-1, compared to 2.72-to-1 at June 30, 2009.

The Company s ability to maintain adequate amounts of cash to meet its future cash needs depends on a number of factors, particularly including its ability to control administrative costs related to the runoff period of the CMS contract, and controlling corporate overhead costs. On the basis of the matters discussed above, management believes at this time that the Company has the sufficient cash to adequately support its financial requirements through the next twelve months, and maintain minimum statutory net worth requirements of UAHC-TN.

Net cash used in operating activities of $8.2 million in the nine months ended March 31, 2010 was primarily due to a net loss of $4.1 million and the $3.1 million net payment of the litigation settlement. (See Note 9 to our Unaudited Condensed Consolidated Financial Statements.) Medical claims payable decreased by $1.8 million at March 31, 2010 compared to June 30, 2009, primarily due to discontinuance of the CMS contract. Accounts payable and accrued expenses decreased by $0.5 million at March 31, 2010 compared to June 30, 2009, principally due to the payment of legal fees related to litigation.

Net cash provided by investing activities of $4.5 million for the nine months ended March 31, 2010 was primarily due to cash proceeds from the sale of marketable securities of $6.9 million which was partially offset by cash purchases of marketable securities of $2.4 million.

Decrease in cash was $3.7 million for the nine months ended March 31, 2010, compared to increase in cash of $0.3 million for the comparable period a year earlier.

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The Company s subsidiary, UAHC-TN, had a required minimum net worth requirement using statutory accounting practices of $1.5 million at March 31, 2010. UAHC-TN had excess statutory net worth of approximately $4.0 million at March 31, 2010.

Item 4T. Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive and principal financial officers, we have evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2010. Based upon that evaluation, our principal executive and principal 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 (Exchange Act), 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 principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

There was no change in our internal control over financial reporting during our third quarter ended March 31, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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Part II. OTHER INFORMATION

Item 1. Legal Proceedings

On March 31, 2010, Strategic Turnaround Equity Partners, L.P. (Cayman) (STEP) filed suit against the Company, Thomas Goss (Chairman of the Company s Board), John Fife and Fife affiliates (Fife) in the United States District Court for the Eastern District of Michigan, Case No. 10-cv-11305, seeking an injunction against a proxy solicitation by the Company, voting of Fife shares, and implementation of a Voting and Standstill Agreement dated March 19, 2010 between the Company and St. George Investments, LLC, one of the Fife affiliates. STEP alleged that the Company s preliminary proxy materials for the 2010 annual meeting of shareholders violated Section 14(a) of the Securities Exchange Act of 1934, that Fife was prohibited from voting shares by virtue of a provision in the Company s Articles of Incorporation and that the Voting and Standstill Agreement violated the Articles of Incorporation and Michigan law. On April 7, 2010, STEP sought an order directing the holding of the Company s annual meeting on April 23, 2010. On April 9, 2010, the district court denied STEP s motion relating to the April 23 meeting. On April 28, 2010, the Company filed a motion to dismiss STEP s lawsuit. STEP has since filed a motion for summary judgment. A hearing has been scheduled for June 15, 2010.

Item 1A. Risk Factors

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, 2009 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.

Item 5. Other Information

On November 12, 2009, we received a letter from The NASDAQ Stock Market advising that, for the previous 30 consecutive business days, the closing bid price of our common stock was below the minimum $1.00 per share requirement for continued listing on The NASDAQ Capital Market. We had a grace period of 180 calendar days, or until May 11, 2010, in which to regain compliance. On January 25, 2010, we regained compliance as the bid price of our common stock closed at $1.00 per share or more for a minimum of 10 consecutive business days.

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Item 6. Exhibits

10.1	Employment Agreement, dated January 16, 2010, by and between the Company and William L. Dennis, incorporated herein by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed January 21, 2010.
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.

* Filed herewith

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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

Dated: May 17, 2010

By: /s/ William C. Brooks
William C. Brooks
President & Chief Executive Officer
(Principal Executive Officer)

Dated: May 17, 2010

By: /s/ William L. Dennis
William L. Dennis
Chief Financial Officer & Treasurer
(Principal Financial Officer)

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