UNITED AMERICAN HEALTHCARE CORP
Form 10-Q
November 04, 2005

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE PERIOD ENDED SEPTEMBER 30, 2005
Commission File Number: 000-18839

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

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

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

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

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

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

COMMON STOCK, NO PAR VALUE
(Title of Class)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes X No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No X

THE NUMBER OF OUTSTANDING SHARES OF REGISTRANT'S COMMON STOCK AS OF NOVEMBER 3, 2005 IS 7,475,235.

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As filed with the Securities and Exchange Commission on November 4, 2005

UNITED AMERICAN HEALTHCARE CORPORATION

FORM 10-Q

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PART I.

ITEM 1. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

	SEPTEMBER 30, 2005 (Unaudited)
ASSETS	
Current assets	
Cash and cash equivalents	$ 3,337
Marketable securities	2,605
Accounts receivable - State of Tennessee	1,240
Other receivables	487
Prepaid expenses and other	197
Deferred income taxes	2,169
Total current assets	10,035
Property and equipment, net	150
Goodwill	3,452
Marketable securities	7,110
Restricted Assets	2,721
Other assets	586
Total assets	$24,054
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current liabilities	
Medical claims payable	$ 156
Accounts payable and accrued expenses	904
Accrued compensation and related benefits	446
Accrued rent	135
Other current liabilities	1,529
Total current liabilities	3,170
Total liabilities	3,170
Shareholders' equity	
Preferred stock, 5,000,000 shares authorized; none issued	--
Common stock, no par, 15,000,000 shares authorized; 7,471,835 and 7,450,235 issued and outstanding at September 30, 2005 and June 30, 2005, respectively	12,583
Retained earnings	8,448
Accumulated other comprehensive loss, net of income taxes	(147)
Total shareholders' equity	20,884
	$24,054

See accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

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

	THREE MONTHS ENDED SEPTEMBER 30, 2005	2004
REVENUES		
Fixed administrative fees	$4,490	5,128
Medical premiums	--	19
Interest and other income	18	261
Total revenues	4,508	5,408
EXPENSES		
Medical services	--	19
General and administrative	4,018	3,737
Depreciation and amortization	33	49
Interest expense	--	8
Total expenses	4,051	3,813
Earnings from continuing operations before income taxes	457	1,595
Income tax expense	54	--
EARNINGS FROM CONTINUING OPERATIONS	403	1,595
DISCONTINUED OPERATIONS		
Loss from discontinued operations	--	(129)
NET EARNINGS	$ 403	$1,466
NET EARNINGS PER COMMON SHARE - BASIC		
Earnings from continuing operations	$ 0.05	$ 0.22
Loss from discontinued operations	--	(0.02)
Net earnings per common share	$ 0.05	$ 0.20
Weighted average shares outstanding	7,459	7,391
NET EARNINGS PER COMMON SHARE - DILUTED		
Earnings from continuing operations	$ 0.05	$ 0.21
Loss from discontinued operations	--	(0.02)
Net earnings per common share	$ 0.05	$ 0.19
Weighted average shares outstanding	7,583	7,443

See accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

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

(IN THOUSANDS)

	THREE MONTHS ENDED SEPTEMBER 30, 2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	$ 403	$ 1,466
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Net unrealized gain (loss) on investment	(107)	23
Depreciation and amortization	33	49
Deferred income taxes	(219)	(158)
Stock awards	--	(183)
Stock compensation expense	76	--
Net changes in operating assets and liabilities	(391)	(388)
Net cash provided by (used in) operating activities	(205)	809
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of marketable securities	(6,326)	(2,632)
Purchase of property and equipment	(5)	--
Proceeds from the sale of property and equipment	--	105
Net cash used in investing activities	(6,331)	(2,527)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments made on long-term debt	--	(722)
Issuance of common stock	30	271
Net cash provided by (used in) financing activities	30	(451)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(6,506)	(2,169)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	9,843	7,767
CASH AND CASH EQUIVALENTS AT END OF PERIOD	3,337	$ 5,598
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	$ --	$ 8
Income taxes paid	$ 30	$ 58

See accompanying Notes to the Unaudited Condensed Consolidated Financial Statements.

UNITED AMERICAN HEALTHCARE CORPORATION AND SUBSIDIARIES
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-CONTINUED
SEPTEMBER 30, 2005 AND 2004

NOTE 1 - BASIS OF PREPARATION

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

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

In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the financial position and results of operations have been included. The results of operations for the three-month period ended September 30, 2005 are not necessarily indicative of the results of operations for the full fiscal year ending June 30, 2006. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the notes to the financial statements contained in the Company's most recent annual report on Form 10-K.

NOTE 2 - COMPREHENSIVE INCOME

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

	THREE MONTHS ENDED SEPTEMBER 30,	
	2005	2004
Net earnings	$ 403	$1,466
Net unrealized holding gains (losses), net of deferred federal income taxes	(107)	23
Comprehensive income	$ 296	$1,489

The components of accumulated other comprehensive income, included in shareholders' equity at September 30, 2005 and June 30, 2005, include net unrealized holding gains and losses, net of deferred federal income taxes.

NOTE 3 - NET EARNINGS PER COMMON SHARE

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

NOTE 4 - EFFECTIVE TAX RATE

The Company's effective tax rate for the three months ended September 30, 2005 is 12% and differs from the statutory rate of 34%. This difference is the result of the utilization of net operating loss carryforwards.

NOTE 5 - CONTRACTUAL RISK AGREEMENT

Beginning July 1, 2002, TennCare, a State of Tennessee program that provides medical benefits to Medicaid and working uninsured recipients, implemented an 18-month stabilization program, which entailed changes to TennCare's contracts with managed care organizations (" MCOs"), including the Company's subsidiary, now called UAHC Health Plan of Tennessee, Inc. ("UAHC-TN"). During that period, MCOs were generally compensated for administrative services only (commonly called "ASO"), earned fixed administrative fees, were not at risk for medical costs in excess of targets established based on various factors, were subject to increased oversight, and could incur financial penalties for not achieving certain performance requirements. Through successive contractual amendments, TennCare extended the ASO reimbursement system applicable to UAHC-TN, first through June 30, 2004, then through December 31, 2004, and then through June 30, 2005. Through an amendment with an effective date of July 1, 2005, TennCare has implemented a modified risk arrangement with all its contracted MCOs, including UAHC-TN, which are at risk for losing up to 10% of administrative fee revenue and may receive up to 15% incentive bonus revenue based on performance relative to benchmarks.

In September 2002, UAHC-TN and the State of Tennessee, doing business as TennCare, amended the Contractor Risk Agreement between them. Pursuant to the amendment, the State of Tennessee agreed to pay UAHC-TN up to $7.5 million as necessary to meet its statutory net worth requirement as of June 30, 2002. Pursuant to a further agreement with UAHC-TN in October 2002, the State of Tennessee agreed to pay additional funds to UAHC-TN if future certified actuarial data confirm they are needed by UAHC-TN to meet its statutory net worth requirement as of June 30, 2002.

UAHC-TN received a permitted practice letter from the State of Tennessee to include such $7.5 million receivable in its statutory net worth at June 30, 2002. Under generally accepted accounting principles, the $7.5 million receivable and additional funds were not recorded in fiscal 2002 financial statements but have been recorded in subsequent fiscal years as fiscal 2002 claims are processed.

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UNITED AMERICAN HEALTHCARE CORPORATION AND SUBSIDIARIES
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-CONTINUED
SEPTEMBER 30, 2005 AND 2004

NOTE 6 - GOODWILL

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

Management has assessed the remaining carrying amount of previously recorded goodwill of $3.5 million and determined that such amount is not impaired in accordance with SFAS No. 142. Accordingly, there was no goodwill impairment recorded for the three months ended September 30, 2005 and 2004.

NOTE 7 - DISCONTINUED OPERATIONS

The Company's longstanding management agreement with OmniCare Health Plan in Michigan ("OmniCare-MI"), ended effective November 1, 2002. Because of its resulting workforce reduction, the Company made plans to sublease all of its then principal office premises in Detroit, Michigan, to OmniCare-MI, retroactive to November 1, 2002, and expiring at the lease end in May 2005, and to sell to OmniCare-MI furniture, a telephone system and certain computer hardware and software that the Company chose to leave there. OmniCare-MI commenced its occupancy of the premises on November 1, 2002 and the Company remained in a portion of the premises until it moved its principal offices to new leased premises in Detroit on February 3, 2003. Management expected to complete the signing of the sublease and the sale of assets by the third quarter of fiscal 2004; however, due to the subsequent sale of OmniCare-MI members to Coventry of Michigan approved on May 10, 2004 and effective October 1, 2004, the sale of assets did not occur, and the Company recorded a loss from discontinued operations of $0.7 million in fiscal year 2004. Due to the subsequent liquidation of OmniCare-MI, effective October 1, 2004, the Company renegotiated sublease terms with Michigan HMO (formerly doing business as OmniCare Health Plan in Michigan), which continued to occupy and pay rent for reduced space in such premises. Michigan HMO's occupancy of and rent obligation for the subleased premises ceased on February 28, 2005, sooner than the primary lease end in May 2005. The Company recorded a liability in the first quarter of fiscal year 2005 as it relates to the sublease obligation.

Summarized selected financial information for the discontinued operations is as follows (in thousands):

	THREE MONTHS ENDED SEPTEMBER 30, 2005	THREE MONTHS ENDED SEPTEMBER 30, 2004
Loss from discontinued operations net of zero income taxes	$--	$(129)

NOTE 8 - STOCK OPTION PLANS

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

Effective July 1, 2005 the Compensation Committee and Board of Directors approved the immediate termination of 115,922 non-vested stock options to the Company's directors and officers. The purpose of the termination was to enable the Company to avoid recognizing compensation expense associated with these options in future periods in its consolidated statements of earnings, as a result of SFAS 123R. The pre-tax charge to be avoided totals approximately $650,581 which would have been recognized over fiscal years 2006 through 2008, and, accordingly, the Compensation Committee determined that the expense savings for these particular option agreements outweighed the objective of incentive compensation and retention.

Prior to fiscal year 2005, the Company adopted the disclosure-only provisions of SFAS No. 123. Accordingly, if the Company had elected to recognize compensation cost based on the fair value of the options at grant date, the Company's earnings and earnings per share from continuing operations, assuming dilution, for the three-month periods ended September 30, 2004 would have been the pro forma amounts indicated below (in thousands, except per share amounts):

	Three months ended September 30, 2004
Net earnings:	
As reported	$1,466
Pro forma	$1,466
Net earnings per share:	
As reported:	
Basic	$ 0.20
Diluted	0.19
Pro forma:	
Basic	$ 0.20
Diluted	0.19

NOTE 9 - RESTRICTED ASSETS

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

NOTE 10 - UNAUDITED SEGMENT FINANCIAL INFORMATION

Summarized financial information for the Company's principal operations, as of and for the three-month periods ended September 30, 2005 and 2004, is as follows (in thousands):

	MANAGEMENT COMPANIES (1)	HMOS & MANAGED PLANS (2)	CORPORATE & ELIMINATIONS	CONSOLIDATED COMPANY
SEPTEMBER 30, 2005				
Revenues - external customers	$ --	$ 4,490	$ --	$ 4,490
Revenues - intersegment	4,041	--	(4,041)	--
Interest and other income	(17)	35	--	18
Total revenues	$ 4,024	$ 4,525	$ (4,041)	$ 4,508
Interest expense	$ --	$ --	$ --	$ --
Earnings from continuing operations	(362)	--	--	(362)
Loss from discontinued operations	--	--	--	--
Segment assets	59,021	14,683	(49,652)	24,052
Purchase of equipment	--	--	--	--
Depreciation and amortization	33	--	--	33
SEPTEMBER 30, 2004				
Revenues - external customers	$ --	$ 5,147	$ --	$ 5,147
Revenues - intersegment	4,615	--	(4,615)	--
Interest and other income	75	186	--	261
Total revenues	$ 4,690	$ 5,333	$ (4,615)	$ 5,408
Interest expense	$ 8	$ --	$ --	$ 8
Earnings from continuing operations	1,174	421	--	1,595
Loss from discontinued operations	(129)	--	--	(129)

Segment assets	48,558	12,652	(40,267)	20,943
Purchase of equipment	--	--	--	--
Depreciation and amortization	49	--	--	49
	=======	=======	========	=======

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

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

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

OVERVIEW

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

The Company provides comprehensive management and consulting services to managed care organizations, including health maintenance organizations ("HMOs") in Tennessee and (until November 1, 2002) Michigan, with a targeted mix of Medicaid and commercial enrollment. OmniCare Health Plan, in Michigan ("OmniCare-MI"), an HMO then administered by the Company under a management agreement, was placed in court-ordered rehabilitation proceedings on July 31, 2001, which relieved the Company from further funding OmniCare-MI's capital deficiencies and which continued its OmniCare-MI management agreement, with substantially reduced management fee revenues from OmniCare-MI beginning August 1, 2001. In March 2002, upon the court-appointed Rehabilitator's filing a proposed rehabilitation plan for OmniCare-MI, the Company announced it anticipated eventual termination of the management agreement. Such termination occurred November 1, 2002, after which the Company's only managed plan has been UAHC Health Plan of Tennessee, Inc. ("UAHC-TN"), an HMO owned by the Company's wholly owned subsidiary. As of October 31, 2005 there were approximately 123,500 enrollees in UAHC-TN.

Total revenues decreased $0.9 million (17%) to $4.5 million for the quarter ended September 30, 2005, compared to $5.4 million for the quarter ended September 30, 2004, principally due to an amendment to UAHC-TN's contract with the State of Tennessee, doing business as TennCare. Through that amendment with an effective date of July 1, 2005, TennCare has implemented a reduction in capitated administrative fees and a modified risk arrangement with all its contracted managed care organizations (" MCOs"), including UAHC-TN, which are at risk for losing up to 10% of administrative fee revenue and may receive up to 15% incentive bonus revenue based on performance relative to benchmarks.

Total expenses increased $0.2 million (6%) to $4.1 million for the quarter ended September 30, 2005, compared to $3.8 million for the quarter ended September 30, 2004 principally due to an increase in costs associated with the administrative supervision order for UAHC-TN discussed further in "Liquidity and Capital Resources" below, legal fees associated with ongoing litigation, and an increase in claims processing costs.

Earnings from continuing operations before income taxes were $0.5 million and $1.6 million for the quarters ended September 30, 2005 and 2004, respectively.

Earnings from continuing operations were $0.4 million, or $0.05 per basic share, for the quarter ended September 30, 2005, compared to earnings from continuing operations of $1.6 million, or $0.22 per basic share, for the quarter ended September 30, 2004. Such decrease in earnings from continuing operations of $1.2 million, or $0.17 per basic share, is

principally due to a decrease in administrative fee revenue, coupled with an increase in general and administrative expenses discussed above.

There were no charges from discontinued operations for the three months ended September 30, 2005. The Company recorded a liability in the first quarter of fiscal year 2005 as it relates to an expired sublease obligation for its former office premises in Detroit, Michigan.

Net earnings were $0.4 million, or $0.05 per basic share, for the three months ended September 30, 2005, compared to net earnings of $1.5 million, or $0.20 per basic share, for the three months ended September 30, 2004, principally due to a decrease in administrative fee revenue, coupled with an increase in general and administrative expenses discussed above.

FOR THREE MONTHS ENDED SEPTEMBER 30, 2005 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2004

There were no medical premiums revenues in the three months ended September 30, 2005, a decrease of $0.02 million (100%) from $0.02 million in the three months ended September 30, 2004. Medical premiums revenues relate to an amended contractual risk agreement in which TennCare agreed to pay UAHC-TN up to $7.5 million and additional funds as necessary to meet its statutory net worth requirement as of June 30, 2002. Such $7.5 million and additional funds were recorded in subsequent fiscal year financial statements as fiscal 2002 claims were processed.

Fixed administrative fees related to TennCare's below-described ASO program were $4.5 million for the quarter ended September 30, 2005, a decrease of $0.6 million (12%) from $5.1 million in the three months ended September 30, 2004. Such fixed administrative fees are attributed to a change in the reimbursement system of TennCare, effective July 1, 2005.

Beginning July 1, 2002, TennCare implemented an 18-month stabilization program, which entailed changes to TennCare's contracts with MCOs including UAHC-TN. During that period, MCOs were generally compensated for administrative services only (commonly called "ASO"), earned fixed administrative fees, were not at risk for medical costs in excess of targets established based on various factors, were subject to increased oversight, and could incur financial penalties for not achieving certain performance requirements. Through subsequent amendments, TennCare extended the ASO reimbursement system applicable to UAHC-TN through June 30, 2005. Through an amendment with an effective date of July 1, 2005, TennCare has implemented a reduction in capitated administrative fees and has implemented a modified risk arrangement with all its contracted MCOs, including UAHC-TN, which are at risk for losing up to 10% of administrative fee revenue and may receive up to 15% incentive bonus revenue based on performance relative to benchmarks.

There were no medical services expenses in the three months ended September 30, 2005. The $0.02 million of medical services expenses in the three months ended September 30, 2004 represent fiscal 2002 claims processed and reimbursed by TennCare in the first quarter of fiscal 2005 as explained in the first paragraph above.

General and administrative expenses increased approximately $0.3 million (8%), to $4.0 million for the three months ended September 30, 2005 from $3.7 million for the three months ended September 30, 2004. The increase was principally due to an increase in costs associated with the administrative supervision order for UAHC-TN discussed further in "Liquidity and Capital Resources" below, legal fees associated with ongoing litigation, and an increase in claims processing costs.

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Depreciation and amortization expense decreased $ 0.02 million (33%), to $0.03 million for the three months ended September 30, 2005 from $0.05 million for the three months ended September 30, 2004.

Income tax expense increased $0.05 million for the three months ended September 30, 2005 from the comparable period a year earlier. There was no income tax expense recorded for the three months ended September 30, 2004. The Company's effective tax rate for the three months ended September 30, 2005 is 12% and differs from the statutory rate of 34%. This difference is the result of the utilization of net operating loss carryforwards.

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LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2005, the Company had (i) cash and cash equivalents and short-term marketable securities of $5.9 million, compared to $13.6 million at June 30, 2005; (ii) working capital of $6.9 million, compared to working capital of $13.9 million at June 30, 2005; and (iii) a current assets-to-current liabilities ratio of 3.17-to-1, compared to 4.70-to-1 at June 30, 2005. The principal use of funds for such most recent three month period was $6.3 million for the purchase of marketable securities. Cash flow was $(6.5) million for the three months ended September 30, 2005, compared to $(2.2) million for the comparable period a year earlier, principally due to the purchase of short-term marketable securities.

Accounts receivable decreased by $0.2 million at September 30, 2005 compared to June 30, 2005, primarily due to timing of cash receipts from TennCare.

Property, plant and equipment decreased by $0.03 million at September 30, 2005 compared to June 30, 2005, due to recording depreciation of $0.03 million.

The Company's wholly owned subsidiary, UAHC-TN, had a required minimum net worth requirement using statutory accounting practices of $7.3 million at June 30, 2005. UAHC-TN had excess statutory net worth of $5.1 million at September 30, 2005.

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

Beginning July 1, 2002, TennCare implemented an 18-month stabilization program, which entailed changes to TennCare's contracts with MCOs, including UAHC-TN. During that period, MCOs were generally compensated for administrative services only (commonly called "ASO"), earned fixed administrative fees, were not at risk for medical costs in excess of targets established based on various factors, were subject to increased oversight, and could incur financial penalties for not achieving certain performance requirements. Through successive contractual amendments, TennCare extended the ASO reimbursement system applicable to UAHC-TN, first through June 30, 2004, then through December 31, 2004, and then through June 30, 2005. Through an amendment with an effective date of July 1, 2005, TennCare has implemented a modified risk arrangement with all its contracted MCOs, including UAHC-TN, which are at risk for losing up to 10% of administrative fee revenue and may receive up to 15% incentive bonus revenue based on performance relative to benchmarks. TennCare has also begun disenrollment of non-medically needy adults who are not eligible for Medicaid from TennCare coverage statewide, and impose benefit limits on the 396,000 adults left in the program who are eligible for Medicaid. The plans are expected to preserve full coverage for the 612,000 children on the program. As a result, UAHC-TN expects to lose only

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approximately 12,000 members beginning in the first quarter of fiscal year 2006, being its only working uninsured and uninsurable adult members.

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

Pursuant to a Notice of Administrative Supervision issued by the Commissioner of the State of Tennessee's Department of Commerce and Insurance on April 20, 2005, UAHC-TN was placed under administrative supervision of the Commissioner and "has until December 31, 2005 to demonstrate to the Commissioner's satisfaction" that its "continued operation and business, absent the supervision or other oversight by the Commissioner, is not hazardous, financially or operationally, to its enrollees, its creditors or the public."

UAHC-TN received no prior notice of the notice and order of administrative supervision and had no opportunity to respond to its factual assertions. UAHC-TN and the Company are fully cooperating with the State of Tennessee in accordance with the terms of the order, and we do not currently anticipate any material developments during the supervision period.

The administrative supervision order prohibits UAHC-TN from taking certain actions, including making any payments, without the approval of the Commissioner's appointed Administrative Supervisor during the supervision. It is important to recognize that administrative supervision is significantly different than receivership and that UAHC-TN is not in receivership.

The administrative supervision notice asserted a number of findings of fact which the Commissioner stated formed the basis for her order. UAHC-TN and the Company do not agree with many of those findings. The notice also asserted that its findings of fact described potential grounds for termination of UAHC-TN's TennCare contract. Although we acknowledge that any such termination would have a material adverse

effect on UAHC-TN and the Company, we do not agree that those findings are accurate. Moreover, the State of Tennessee in August 2005 extended UAHC-TN's TennCare contract through June 30, 2006, by an amendment to the contract effective as of July 1, 2005.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

Our management has evaluated, with the participation of our principal executive and principal financial officers, the effectiveness of our disclosure controls and procedures as of September 30, 2005, and based on their evaluation, our principal executive and principal financial officers have concluded that these controls and procedures are effective as of September 30, 2005. There was no change in our internal controls over financial reporting identified in connection with such evaluation that occurred during our fiscal quarter ended September 30, 2005 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

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

PART II.

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 5. OTHER INFORMATION

(a) Cautionary Statement Regarding Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements to encourage management to provide prospective information about their companies without fear of litigation so long as those statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those projected in the statements. Certain statements contained in this Form 10-Q quarterly report, including, without limitation, statements containing the words "believes," "anticipates," "will," "could," "may," "might" and words of similar import, constitute "forward-looking statements" within the meaning of this "safe harbor."

Such forward-looking statements are based on management's current expectations and involve known and unknown risks, uncertainties and other factors, many of which the Company is unable to predict or control, that may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors potentially include, among others, the following:

1. Inability to increase premium rates commensurate with increases in medical costs due to utilization, government regulation, or other factors.

2. Discontinuation of, limitations upon, or restructuring of government-funded programs, including but not limited to the TennCare program.

3. Increases in medical costs, including increases in utilization and costs of medical services and the effects of actions by competitors or groups of providers.

4. Adverse state and federal legislation and initiatives, including: the State of Tennessee's limitations upon or reductions in premium payments; prohibition or limitation of capitated arrangements or financial incentives to providers; federal and state benefit mandates (including mandatory length of stay and emergency room coverage); limitations on the ability to manage care and utilization; and any willing provider or pharmacy laws.

5. Failure to obtain new customer bases or members or retain or regain customer bases or members, or reductions in work force by existing customers.

6. Increased competition between current organizations, the entrance of new competitors and the introduction of new products by new and existing competitors.

7. Adverse publicity and media coverage.

8. Inability to carry out marketing and sales plans.

9. Loss or retirement of key executives.

10. Termination of provider contracts or renegotiations at less cost-effective rates or terms of payment.

11. Adverse regulatory determinations resulting in loss or limitations of licensure, certification or contracts with governmental payers.

12. Higher sales, administrative or general expenses occasioned by the need for additional advertising, marketing, administrative or management information systems expenditures.

13. Increases by regulatory authorities of minimum capital, reserve and other financial solvency requirements.

14. Denial of accreditation by quality accrediting agencies, e.g., the National Committee for Quality Assurance (NCQA).

15. Adverse results from significant litigation matters.

16. Inability to obtain satisfactory bank loan credit arrangements, if needed.

17. Increased costs to comply with the Health Insurance Portability and Accountability Act of 1996 (HIPAA).

ITEM 6. EXHIBITS

Exhibits

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

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

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

SIGNATURES

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

UNITED AMERICAN HEALTHCARE CORPORATION

Dated: November 4, 2005 By: /s/ William C. Brooks

William C. Brooks
Chairman, President & Chief
Executive Officer

Dated: November 4, 2005 By: /s/ Stephen D. Harris

Stephen D. Harris
Chief Financial Officer & Treasurer

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EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION
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