

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

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended: June 30, 2008**

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 0-13265

**UCI MEDICAL AFFILIATES, INC.**

(Exact name of Registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation)

59-2225346  
(IRS Employer Identification No.)

**4416 Forest Drive**  
**Columbia, SC 29206**  
(Address of principal executive offices)

(803) 782-4278  
(Registrant's telephone number including area code)

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  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer  Smaller Reporting Company

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

**APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY  
PROCEEDINGS DURING THE PRECEDING FIVE YEARS**

Indicate by checkmark whether the registrant filed all documents and reports required to be filed by Section 12, 13, or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court.  Yes  No

**APPLICABLE ONLY TO CORPORATE ISSUERS**

The number of shares outstanding of the registrant's common stock, \$.05 par value, was 9,914,122 at June 30, 2008.

UCI MEDICAL AFFILIATES, INC.

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UCI Medical Affiliates, Inc.  
Condensed Consolidated Balance Sheets

	<b>June 30, 2008</b> <b>(unaudited)</b>	<b>September 30, 2007</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 719,572	\$ 487,423
Accounts receivable, less allowance for doubtful accounts of \$1,723,247 and \$2,267,793	9,965,762	11,414,362
Inventory	957,569	957,569
Income taxes receivable	-	800,388
Deferred taxes	1,091,291	1,311,291
Prepaid expenses and other current assets	772,033	612,650
Total current assets	13,506,227	15,583,683
Property and equipment, less accumulated depreciation of \$13,331,859 and \$13,769,878	11,782,418	9,732,315
Deferred taxes	62,406	11,034
Restricted investments	2,030,497	1,956,087
Excess of cost over fair value of assets acquired, less accumulated amortization of \$2,451,814	3,391,942	3,391,942
Other assets	56,733	46,735
Total Assets	\$ 30,830,223	\$ 30,721,796
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities		
Line of credit	\$ 284,857	\$ 415,888
Current portion of long-term debt	2,058,388	1,031,902
Accounts payable	1,416,144	2,739,425
Income taxes payable	57,968	-
Accrued salaries and payroll taxes	2,894,711	2,681,346
Accrued uncompensated absences	444,027	315,774
Other accrued liabilities	597,889	1,206,338
Total current liabilities	7,753,984	8,390,673
Long-term liabilities		
Accounts payable	-	96,511
Deferred tax liability	466,576	415,204
Deferred compensation liability	2,147,314	2,068,436
Long-term debt, net of current portion	1,468,668	1,879,995
Total long-term liabilities	4,082,558	4,460,146
Total Liabilities	11,836,542	12,850,819
Commitments and contingencies		
Stockholders' Equity		
Preferred stock, par value \$.01 per share:		
Authorized shares – 10,000,000; none issued	-	-
Common stock, par value \$.05 per share:		
Authorized shares – 50,000,000		
Issued and outstanding – 9,914,122 and 9,914,122 shares	495,706	495,706
Paid-in capital	22,105,024	22,105,024
Accumulated deficit	(3,607,049)	(4,729,753)
Total Stockholders' Equity	18,993,681	17,870,977
Total Liabilities and Stockholders' Equity	\$ 30,830,223	\$ 30,721,796

*The accompanying notes are an integral part of these condensed consolidated financial statements.*

UCI Medical Affiliates, Inc.  
Condensed Consolidated Statements of Operations  
(unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2008	2007	2008	2007
Revenues	\$ 19,301,437	\$ 17,557,264	\$ 58,452,538	\$ 53,972,138
Operating costs	(15,165,498)	(13,353,336)	(45,595,314)	(40,464,635)
Operating margin	4,135,939	4,203,928	12,857,224	13,507,503
General and administrative expenses	(2,975,402)	(2,912,701)	(9,421,089)	(8,232,986)
Depreciation and amortization	(425,945)	(389,373)	(1,274,332)	(1,126,367)
Income from operations	734,592	901,854	2,161,803	4,148,150
Other expense				
Interest expense, net of interest income	(95,246)	(131,788)	(298,030)	(401,479)
Income before income taxes	639,346	770,066	1,863,773	3,746,671
Income tax expense	(254,216)	(289,972)	(741,069)	(1,413,904)
Net income	\$ 385,130	\$ 480,094	\$ 1,122,704	\$ 2,332,767
Basic earnings per share	\$ .04	\$ .05	\$ .11	\$ .24
Basic weighted average common shares Outstanding	9,914,122	9,914,122	9,914,122	9,870,657
Diluted earnings per share	\$ .04	\$ .05	\$ .11	\$ .24
Diluted weighted average common shares outstanding	9,914,122	9,914,122	9,914,122	9,915,996

*The accompanying notes are an integral part of these condensed consolidated financial statements.*

UCI Medical Affiliates, Inc.  
Condensed Consolidated Statements of Cash Flows  
(unaudited)

	Nine Months Ended June 30, 2008	2007
	<u>                    </u>	<u>                    </u>
<b>Operating activities:</b>		
Net income	\$ 1,122,704	\$ 2,332,767
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for losses on accounts receivable	2,680,802	2,875,426
Depreciation and amortization	1,274,332	1,126,367
Deferred taxes	220,000	534,706
Changes in operating assets and liabilities:		
Accounts receivable	(1,232,202)	(4,026,242)
Inventory	-	(169,025)
Income taxes receivable	800,388	-
Income taxes payable	57,968	-
Prepaid expenses and other current assets	(159,383)	(416,775)
Accounts payable and accrued expenses	(1,590,112)	(323,284)
Deferred compensation	78,878	572,869
	<u>3,253,375</u>	<u>2,506,809</u>
<b>Investing activities:</b>		
Purchases of property and equipment	(3,324,435)	(1,808,321)
(Increase) in other assets	(9,998)	(12,962)
(Increase) in restricted investments	(74,410)	(521,724)
	<u>(3,408,843)</u>	<u>(2,343,007)</u>
<b>Financing activities:</b>		
Proceeds from issuance of common stock	-	179,471
Net (payments) borrowings on line of credit	(131,031)	484,709
Net borrowings (payments) on term-notes	829,653	(495,856)
Payments on other long-term obligations	(311,005)	(540,177)
	<u>387,617</u>	<u>(371,853)</u>
Cash provided by (used in) financing activities		
Increase (decrease) in cash and cash equivalents	232,149	(208,051)
Cash and cash equivalents at beginning of period	487,423	533,209
	<u>487,423</u>	<u>533,209</u>
Cash and cash equivalents at end of period	<u>\$ 719,572</u>	<u>\$ 325,158</u>

*The accompanying notes are an integral part of these condensed consolidated financial statements.*

## UCI MEDICAL AFFILIATES, INC.

### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

#### NOTE 1. BUSINESS AND BASIS OF PRESENTATION:

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting only of those of a normal recurring nature) considered necessary for a fair presentation have been included. Operating results for the nine month period ended June 30, 2008 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2008. For further information, refer to the audited consolidated financial statements and footnotes thereto included in our annual report on Form 10-K for the year ended September 30, 2007.

The consolidated financial statements include the accounts of UCI Medical Affiliates, Inc. ("UCI"), UCI Medical Affiliates of South Carolina, Inc. ("UCI-SC"), UCI Properties, LLC ("UCI-LLC"), Doctors Care, P.A., Progressive Physical Therapy, P.A. ("PPT"), Carolina Orthopedic & Sports Medicine, P.A. ("COSM"), and Doctors Care of Tennessee, P.C. (the four together as the "P.A." and together with UCI, UCI-SC and UCI-LLC, the "Company"). Because of the corporate practice of medicine laws in the states in which the Company operates, the Company does not own medical practices but instead enters into exclusive long-term management services agreements with the P.A. that operates the medical practices. Consolidation of the financial statements is required under Financial Accounting Standards Board ("FASB") Interpretation No. 46, as revised, ("FIN 46") "Consolidation of Variable Interest Entities." Prior to the Company's adoption of FIN 46 on October 1, 2003, the Company consolidated the P.A. as a result of Emerging Issues Task Force ("EITF") No. 97-2, "Application of FASB Statement No. 94 and APB Opinion No. 16 to Physician Practice Management Entities and Certain Other Entities with Contractual Management Arrangements." UCI-SC, in its sole discretion, can effect a change in the nominee shareholder of each of the P.A. at any time for a payment of \$100 from the new nominee shareholder to the old nominee shareholder, with no limits placed on the identity of any new nominee shareholder and no adverse impact resulting to any of UCI-SC or the P.A. from such change.

In addition to the nominee shareholder arrangement described above, UCI-SC has entered into an Administrative Service Agreement with each P.A. As a consequence of the nominee shareholder arrangement and the Administrative Service Agreement, the Company has a long-term financial interest in the affiliated practices of each P.A. and the Company has exclusive authority over decision-making relating to all major on-going operations. The Company establishes annual operating and capital budgets for the P.A. and compensation guidelines for the licensed medical professionals. The Administrative Service Agreements have an initial term of forty years. All significant intercompany accounts and transactions are eliminated in consolidation, including management fees.

On September 28, 2007, the Company formed a South Carolina limited liability company, UCI Properties, LLC ("UCI-LLC") for the purpose of holding certain real estate. The sole member of UCI-LLC is UCI-SC.

The method of computing the management fees is based on billings of the affiliated practices less the amounts necessary to pay professional compensation and other professional expenses. In all cases, these fees are meant to compensate the Company for expenses incurred in providing covered services plus a profit. These interests are unilaterally salable and transferable by the Company and fluctuate based upon the actual performance of the operations of the professional corporation.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The most significant estimates are related to the allowance for doubtful accounts, goodwill and intangible assets, income taxes, contingencies, and health insurance accruals.

The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates in the near term.

Revenue is recognized at estimated net amounts to be received from patients, employers, third party payors and others at the time the related services are rendered. The Company records contractual adjustments at the time bills are generated for services rendered as some third parties are billed at discounted and negotiated amounts. Whenever the Company bills at the discounted amounts, estimates of third party settlements are not necessary.

Restricted investments represent mutual fund investments to fund the Company's deferred compensation liability and are classified as trading. Realized gains and losses are determined on the basis of first-in, first-out (FIFO) cost of the securities. Both realized and unrealized gains are recorded in the Company's statement of income.

The Company adopted FASB Statement No. 131, "Disclosure about Segments of an Enterprise and Related Information," in fiscal year 1999. Statement No. 131 requires companies to report financial and descriptive information about their reportable operating segments, including segment profit or loss, certain specific revenue and expense items, and segment assets, as well as information about the revenues derived from the Company's products and services, the countries in which the Company earns revenues and holds assets, and major customers. This statement also requires companies that have a single reportable segment to disclose information about products and services, information about geographic areas, and information about major customers. This statement requires the use of the management approach to determine the information to be reported. The management approach is based on the way management organizes the enterprise to assess performance and make operating decisions regarding the allocation of resources. It is management's opinion that, at this time, the Company has several operating segments, however, only one reportable segment. The following discussion sets forth the required disclosures regarding single segment information.

The Company provides nonmedical management and administrative services for a network of 61 freestanding medical centers, 60 of which are located throughout South Carolina and one is located in Knoxville, Tennessee (39 operating as Doctors Care in South Carolina, one as Doctors Care in Knoxville, Tennessee, 18 as Progressive Physical Therapy Services in South Carolina, one as Luberoff Pediatrics in South Carolina, one as Carolina Orthopedic and Sports Medicine in South Carolina, and one as Doctors Wellness Center in South Carolina).

## **NOTE 2. INVENTORY**

The Company's inventory consists of medical supplies and drugs and both are carried at the lower of average cost or market. The volume of supplies carried at a center varies very little from month to month; therefore, management does only an annual physical inventory count and does not maintain a perpetual inventory system.

## **NOTE 3. INCOME TAXES**

Deferred tax assets and liabilities are recorded based on the difference between the financial statement and tax bases of assets and liabilities as measured by the enacted tax rates which are anticipated to be in effect when these differences reverse. The deferred tax provision is the result of the net change in the deferred tax assets to amounts expected to be realized. Valuation allowances are provided against deferred tax assets when the Company determines it is more likely than not that the deferred tax asset will not be realized. During the quarters ended June 30, 2008 and June 30, 2007, the Company recorded income tax expense of approximately \$254,000 and \$290,000, respectively.

#### **NOTE 4. INTANGIBLES**

In June 2001, the Financial Accounting Standards Board issued Statement No. 142, "Goodwill and Other Intangible Assets." Statement No. 142 requires that goodwill and intangible assets with indefinite lives will no longer be amortized, but are reviewed at least annually for impairment. Pursuant to Statement No. 142, the Company tested goodwill for impairment in the fourth quarter of fiscal year 2007, and determined there had not been any impairment.

#### **NOTE 5. LINE OF CREDIT**

During 2006, the Company entered into an agreement with a financial institution providing for maximum borrowings of \$500,000. During 2007, the Company increased its line of credit to \$1,000,000. At June 30, 2008, the Company had outstanding borrowings on the line of approximately \$285,000. Pricing is prime rate plus a \$150 monthly fee (prime rate was 5% at June 30, 2008). Borrowings are collateralized by the Company's accounts receivable and the maturity date of this credit line is August 16, 2009.

#### **NOTE 6. TERM NOTE AGREEMENT**

During the quarter ended June 30, 2008, the Company entered into a term note agreement with a financial institution with a commitment level up to \$3,500,000. This term note agreement was entered into to finance the purchase by UCI-LLC of, and renovations to, a new corporate headquarters to be located in Columbia, South Carolina. The term note agreement is attached as Exhibit 10.35 to this Form 10-Q and is incorporated herein by reference. At June 30, 2008, the outstanding balance on the term note was approximately \$1,400,000. The note has a variable interest rate based on the Adjusted Libor Rate with interest only payments due through September 2009. Starting in October 2009, the balance is payable in equal monthly installments of principal and interest in the amount of \$27,562 with the balance due on March 5, 2015. The promissory note is collateralized by a lien on the property.

#### **NOTE 7. 2007 EQUITY INCENTIVE PLAN**

The Company established the 2007 Equity Incentive Plan (the "Plan"), effective as of March 7, 2007, to use Common Stock in UCI ("Common Stock") as a tool to encourage employees of UCI and its subsidiaries, its affiliates and its joint ventures to work together to increase the overall value of UCI Common Stock. The Company believes the Plan will serve the interests of UCI and its stockholders because it allows employees to have a greater personal financial interest in UCI through ownership of its Common Stock, the right to acquire its Common Stock, or other Plan Awards and Rights that are measured and paid based on UCI's performance. The types of equity incentives under this Plan include:

- (a) Incentive Stock Options;
- (b) Nonqualified Stock Options;
- (c) Stock Appreciation Rights;
- (d) Restricted Stock Grants;
- (e) Performance Shares;
- (f) Share Awards; and
- (g) Phantom Stock Awards.

At June 30, 2008, no equity incentives have been issued under this Plan.

## **NOTE 8. EARNINGS PER SHARE**

Net income per share is computed in accordance with Statement of Financial Accounting Standards No. 128, "Earnings Per Share". Basic earnings per share are calculated by dividing income available to common shareholders by the weighted-average number of shares outstanding for each period. Diluted earnings per common share are calculated by adjusting the weighted-average shares outstanding assuming conversion of all potentially dilutive stock options.

## **NOTE 9. NEW ACCOUNTING PRONOUNCEMENTS**

In June 2006, the FASB issued FIN 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement 109" which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FAS 109, "Accounting for Income Taxes." FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 is effective for fiscal years beginning after December 15, 2006, which will be the Company's fiscal year beginning October 1, 2007. FIN 48 was adopted commencing in the first quarter of the Company's fiscal year end 2008. The adoption of FIN 48 did not have a material impact on the Company's financial condition and results of operations. At June 30, 2008, the Company had no unrecognized tax benefits that, if recognized, would materially affect the Company's effective income tax rate in future periods. Management is currently unaware of any issues under review that could result in significant payments, accruals or material deviations from its recognized tax positions.

In September 2006, the SEC staff issued Staff Accounting Bulletin 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"). SAB 108 requires that public companies utilize a 'dual-approach' to assessing the quantitative effects of financial misstatements. This dual approach includes both an income statement focused assessment and a balance sheet focused assessment. The Company adopted SAB 108 in fiscal year 2007 without any impact on the Company's consolidated financial statements.

Also in September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," effective for the Company's fiscal year beginning October 1, 2008. This Statement defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This Statement does not require any new fair value measurements, but simplifies and codifies related guidance within GAAP. This Statement applies under other accounting pronouncements that require or permit fair value measurements. The Company is currently reviewing this pronouncement, but the Company believes it will not have a material impact on the Company's consolidated financial statements. On February 12, 2008, the FASB issued FASB Staff Position No. FAS No. 157-2, "Effective Date of FASB Statement No. 157" ("FSP 157-2") which defers the effective date for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (that is, at least annually), to fiscal years beginning after November 15, 2008.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities", (SFAS No. 159) which gives companies the option to measure eligible financial assets, financial liabilities and firm commitments at fair value (i.e., the fair value option), on an instrument-by-instrument basis, that are otherwise not permitted to be accounted for at fair value under other accounting standards. The election to use the fair value option is available when an entity first recognizes a financial asset or financial liability or upon entering into a firm commitment. Subsequent changes in fair value must be recorded in earnings. SFAS No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is in the process of evaluating the impacts, if any, of adopting this pronouncement.

The Company adopted both FAS 157 and FAS 159 on January 1, 2008 for its financial assets and liabilities and, in accordance with FSP 157-2, deferred the effective date for its nonfinancial assets and liabilities. The adoption of FAS 157 and FAS 159 had no impact on the Company's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements", ("SFAS No. 160") an amendment of Accounting Research Bulletin No. 51, which establishes new standards governing the accounting for and reporting on noncontrolling interest ("NCIs") in partially owned consolidated subsidiaries and the loss of control of subsidiaries. Certain provisions of SFAS No. 160 indicate, among other things, that NCIs (previously referred to as minority interests) be treated as a separate component of equity, not as a liability; that increases and decreases in the parent's ownership interest that leave control intact be treated as equity transactions, rather than a step acquisition or dilution gains or losses; and that losses of a partially

owned consolidated subsidiary be allocated to the NCI even when such allocation might result in a deficit balance. SFAS No. 160 also requires changes to certain presentation and disclosure requirements. SFAS No. 160 is effective beginning October 1, 2009. The Company is currently evaluating the impact and disclosure implications of SFAS No. 160 but does not expect it to have a significant impact, if any, in the financial statements.

#### **NOTE 10. SUBSEQUENT EVENTS**

On July 17, 2008, the Doctors Care building located in Surfside Beach, South Carolina was purchased by UCI-LLC for a total purchase price of \$815,000. This property was previously rented by the Company and occupied as a medical center. A portion of the purchase price was funded by a promissory note in the original principal amount of \$695,000, and is collateralized with a lien on the property. The promissory note accrues interest at a rate of 5.95 percent per annum. Starting on August 16, 2008 and continuing for 59 months thereafter, principal and interest payments in the amount of \$5,890 are payable. The entire unpaid balance of principal and interest will be due on July 16, 2013. The promissory note is attached as Exhibit 10.36 to this Form 10-Q and is incorporated herein by reference.

On July 23, 2008, a construction contract in the amount of \$2,035,157 was entered into by UCI-LLC and a builder for renovations to the corporate headquarters. The financing for this commitment is being provided by the term note discussed in Note 6.

## **Advisory Note Regarding Forward-Looking Statements**

Certain of the statements contained in this Report on Form 10-Q that are not historical facts are forward-looking statements subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995. We caution readers of this Form 10-Q that such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from those expressed or implied by such forward-looking statements. Although our management believes that their expectations of future performance are based on reasonable assumptions within the bounds of their knowledge of their business and operations, we have no assurance that actual results will not differ materially from their expectations. Factors that could cause actual results to differ from expectations include, among other things, (1) the difficulty in controlling our costs of providing healthcare and administering our network of centers; (2) the possible negative effects from changes in reimbursement and capitation payment levels and payment practices by insurance companies, healthcare plans, government payors and other payment sources; (3) the difficulty of attracting primary care physicians; (4) the increasing competition for patients among healthcare providers; (5) possible government regulations negatively impacting our existing organizational structure; (6) the possible negative effects of prospective healthcare reform; (7) the challenges and uncertainties in the implementation of our expansion and development strategy; (8) the dependence on key personnel; (9) adverse conditions in the stock market, the public debt market, and other capital markets (including changes in interest rate conditions); (10) the strength of the United States economy in general and the strength of the local economies in which we conduct operations may be different than expected resulting in, among other things, a reduced demand for practice management services; (11) the demand for our products and services; (12) technological changes; (13) the ability to increase market share; (14) the adequacy of expense projections and estimates of impairment loss; (15) the impact of change in accounting policies by the Securities and Exchange Commission; (16) unanticipated regulatory or judicial proceedings; (17) the impact on our business, as well as on the risks set forth above, of various domestic or international military or terrorist activities or conflicts; (18) other factors described in this report and in our other reports filed with the Securities and Exchange Commission; and (19) our success at managing the risks involved in the foregoing.

## **PART I FINANCIAL INFORMATION**

### **Item 2. Management's Discussion And Analysis Of Financial Condition And Results Of Operations**

The following discussion and analysis provides information that we believe is relevant to an assessment and understanding of our consolidated results of operations and financial condition. This discussion should be read in conjunction with the consolidated financial statements and notes thereto.

#### Critical Accounting Policies

We have adopted accounting policies that we believe will result in an accurate presentation of the financial statements. We consider critical accounting policies to be those that require more significant judgments and estimates in the preparation of our financial statements and include the following: (1) revenue recognition; (2) allowance for doubtful accounts; (3) consideration of impairment of intangible assets; and (4) valuation reserve on net deferred tax assets.

#### *Revenue recognition –*

We record revenues at the estimated net amount that we expect to receive from patients, employers, third party payors, and others at the time we perform the services. We record contractual adjustments when we prepare the related bills to our customers as we bill some third parties at discounted and negotiated amounts. Whenever we bill at the discounted amounts, we do not need to estimate third party settlements.

#### *Allowance for doubtful accounts –*

We maintain our allowance for doubtful accounts for estimated losses, which may result from the inability of our customers to make required payments. We base our allowance on the likelihood of recoverability of accounts receivable considering such factors as past experience and current collection trends. Factors taken into consideration in estimating the allowance include: amounts past due, in dispute, or a client that we believe might be having financial difficulties. If economic, industry, or specific customer business trends worsen beyond earlier estimates, we increase the allowance for doubtful accounts by recording additional bad debt expense.

#### *Consideration of impairment of intangible assets –*

We evaluate the recovery of the carrying amount of excess of cost over fair value of assets acquired by determining if a permanent impairment has occurred. This evaluation is done annually on September 30<sup>th</sup> of each year or more frequently if indicators of permanent impairment arise. Indicators of a permanent impairment include, among other things, significant adverse change in legal factors or the business climate, an adverse action by a regulator, unanticipated competition, loss of key personnel or allocation of goodwill to a portion of the business that is to be sold or otherwise disposed. At such time as impairment is determined, the intangible assets are written off during that period.

#### *Valuation reserve on net deferred tax assets –*

We record a valuation allowance to reduce our deferred tax assets to the amount that management considers is more likely than not to be realized. Based upon our current financial position, results from operations, and our forecast of future earnings, we do not believe we currently need a valuation allowance.

#### Company Structure

Our consolidated financial statements include the accounts of UCI and UCI-SC. Consolidation of the financial statements is required under FIN 46, as revised. Prior to the adoption of FIN 46, we consolidated the P.A. as a result of EITF 97-2, “Application of FASB Statement No. 94 and A.P.B. Opinion No. 16 to Physician Practice Management Entities and Certain Other Entities with Contractual Management Arrangements.” UCI-SC, in its sole discretion, can effect a change in the nominee shareholder of each P.A. at any time for a payment of \$100 from the new nominee shareholder to the old nominee shareholder, with no limits placed on the identity of any new nominee shareholder and no adverse impact resulting to any of UCI-SC or the P.A. from such change.

In addition to the nominee shareholder arrangement described above, UCI-SC has entered into an Administrative Service Agreement with each P.A. As a consequence of the nominee shareholder arrangement and the Administrative Service Agreement, we have a long-term financial interest in the affiliated practices of each P.A.

Approximately 99% of the physicians employed by the P.A. are paid on an hourly basis for time scheduled and worked at the medical centers. Approximately 30% of the physicians have incentive compensation arrangements; however, no amounts were accrued or paid that were significant during our three prior fiscal years. We base any incentive compensation upon a percentage of non-ancillary collectible charges for services performed by a provider. As of June 30, 2008 and 2007, the P.A. employed 185 and 163 medical providers, respectively.

The net assets of the P.A. are not material for any period presented, and intercompany accounts and transactions have been eliminated.

We allocate all indirect costs incurred at the corporate office to the centers. Therefore, all discussions below are intended to be in the aggregate for us as a whole.

## Results of Operations

The Company provides nonmedical management and administrative services for a network of 61 freestanding medical centers, 60 of which are located throughout South Carolina and one is located in Knoxville, Tennessee (39 operating as Doctors Care in South Carolina, one as Doctors Care in Knoxville, Tennessee, 18 as Progressive Physical Therapy Services in South Carolina, one as Luberoff Pediatrics in South Carolina, one as Carolina Orthopedic and Sports Medicine in South Carolina, and one as Doctors Wellness Center in South Carolina).

Revenues of \$19,301,000 for the quarter ended June 30, 2008 reflect an increase of \$1,744,000 or 10% from those of the quarter ended June 30, 2007. For the nine months ended June 30, 2008, revenues were \$58,453,000 as compared to \$53,972,000 for the nine months ended June 30, 2007.

This increase in revenue is the result of opening additional operating facilities, as well as an increase in patient encounters. Patient encounters were approximately 172,000 in the third quarter of fiscal year 2008 and 158,000 in the third quarter of fiscal year 2007.

Pursuant to SFAS No. 142, we tested goodwill for impairment in the fourth quarter of fiscal year 2007, and we determined there had not been any impairment.

We have continued our services provided to members of HMOs. In these arrangements, we, through the P.A., act as the designated primary caregiver for members of HMOs who have selected one of our centers or providers as their primary care provider. In fiscal year 1994, we began participating in an HMO operated by BlueChoice HealthPlan of South Carolina ("BCHP") and Companion Property and Casualty Insurance Company ("CP&C"), wholly owned subsidiaries of Blue Cross Blue Shield of South Carolina ("BCBS"). BCBS, through BCHP, is a primary stockholder of UCI. Including our arrangement with BCHP and CP&C, we now participate in three HMOs. As of June 30, 2008, all of these HMOs use a discounted fee-for-service basis for payment. HMOs do not, at this time, have a significant penetration into the South Carolina market. We are not certain if the market share of HMOs will grow in the areas in which we operate clinics.

The Company sustained revenues in fiscal year 2008 in occupational medicine and industrial health services (these revenues are referred to as "employer paid" and "workers compensation" on the table below). We developed focused marketing materials, including quarterly newsletters for employers, to spotlight our services for industry. We derived approximately 16% of our total revenues from these occupational medicine services in the third quarter of fiscal year 2008 and approximately 17% in the third quarter of fiscal year 2007.

The following table breaks out our revenue and patient visits by revenue source for the third quarter of fiscal years 2008 and 2007.

<b>Payor</b>	<b>Percent of Patient Visits</b>		<b>Percent of Revenue</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Patient Pay	15	15	8	10
Employer Paid	8	10	3	4
HMO	5	5	7	6
Workers Compensation	10	11	13	13
Medicare/Medicaid	14	12	13	12
Managed Care Insurance	45	44	53	52
Other (Commercial Indemnity, Champus, etc.)	3	3	3	3
	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

We earned an operating margin of \$4,136,000 during the third quarter of fiscal 2008 as compared to an operating margin of \$4,204,000 for the third quarter of fiscal 2007. For the nine months ended June 30, 2008, operating margin was \$12,857,000 as compared to \$13,508,000 for the nine months ended June 30, 2007. The decrease in the year to date margin was the result of the operating costs of the new centers exceeding their revenues. As the new centers continue to grow, we expect the margins to improve.

General and administrative expenses include all salaries, benefits, supplies and other operating expenses not specifically related to the day-to-day operation of the centers. General and administrative expenses increased to \$2,975,000 in the third quarter of fiscal year 2008, up from \$2,913,000 in the third quarter of fiscal year 2007. For the nine months ended June 30, 2008, general and administrative expenses increased to \$9,421,000, up from \$8,233,000 for the same period in the prior fiscal year. This increase is the result of increased advertising expenses and an increase in corporate personnel costs associated with the support of the new centers.

Depreciation and amortization expense increased to \$426,000 in the third quarter of fiscal 2008, up from \$389,000 in the third quarter of fiscal 2007. For the nine months ended June 30, 2008, depreciation and amortization expense increased to \$1,274,000 up from \$1,126,000 for the nine months ended June 30, 2007. This increase is the result of equipment purchases and building renovations. Interest expense decreased to \$95,000 in the third quarter of fiscal year 2008, down from \$132,000 in the third quarter of fiscal 2007. For the nine months ended June 30, 2008, interest expense decreased to \$298,000, as compared to \$401,000 for the nine months ended June 30, 2007. This decrease was due to the normal amortization schedule of the long-term debt and lower interest rates.

During the quarter ended June 30, 2008, our management recorded income tax expense of approximately \$254,000, compared to \$290,000 recorded during the third quarter of fiscal year 2007. For the nine months ended June 30, 2008, income tax expense was \$741,000, compared to \$1,414,000 for the nine months ended June 30, 2007.

#### Financial Condition at June 30, 2008

Cash and cash equivalents increased by \$232,000 during the nine months ended June 30, 2008, mainly as a result of increased collections on patient accounts.

Accounts receivable decreased by \$1,449,000 during the nine months ended June 30, 2008 and is a result of increased collection efforts, offset by increased revenues.

Long-term debt increased from \$2,912,000 at September 30, 2007 to \$3,527,000 at June 30, 2008 due to borrowings on the new term note offset by regular principal pay-downs. Our management believes that it will be able to continue to fund debt service requirements out of cash generated through operations.

#### Liquidity and Capital Resources

We require capital principally to fund growth (opening new centers), for working capital needs, and for the retirement of indebtedness. We fund our capital requirements and working capital needs through a combination of external financing and credit extended by suppliers.

As of June 30, 2008, we have no material commitments for capital expenditures or for acquisitions or start-ups.

Operating activities produced \$3,253,000 of cash during the nine months ended June 30, 2008, compared to \$2,507,000 during the nine months ended June 30, 2007. The net change in accounts receivable for the nine months ended June 30, 2008 is comprised of increased cash collections of approximately \$1,993,000 offset by writeoffs to the allowance for doubtful accounts in the amount of approximately \$3,226,000.

Investing activities used \$3,409,000 in the nine months ended June 30, 2008 as compared to \$2,343,000 in the nine months ended June 30, 2007. This increase is due to purchases of equipment and building renovations for our operating sites and the purchase of the new corporate office property.

Financing activities provided \$388,000 in cash during the nine months ended June 30, 2008 as compared to utilizing \$372,000 in the nine months ended June 30, 2007, primarily as a result of the borrowings on the new note offset by the payments on the line of credit balance.

### **Item 3. Quantitative And Qualitative Disclosures About Market Risk**

We are exposed to changes in interest rates primarily as a result of our borrowing activities, which includes credit facilities with financial institutions used to maintain liquidity and fund our business operations, as well as notes payable to various third parties in connection with certain acquisitions of property and equipment. The nature and amount of our debt may vary as a result of future business requirements, market conditions, and other factors. The definitive extent of our interest rate risk is not quantifiable or predictable because of the variability of future interest rates and business financing requirements. We do not currently use derivative instruments to adjust our interest rate risk profile.

Approximately \$256,000 of our debt at June 30, 2008 was subject to fixed interest rates. Approximately \$3,271,000 of our debt at June 30, 2008 was subject to variable interest rates. Based on the outstanding amounts of variable rate debt at June 30, 2008, our interest expense on an annualized basis would increase approximately \$33,000 for each increase of one percent in the prime rate.

We do not utilize financial instruments for trading or other speculative purposes, nor do we utilize leveraged financial instruments.

#### **Item 4T. Controls and Procedures**

We conducted an evaluation of the effectiveness of the design and operation of our “disclosure controls and procedures” (Disclosure Controls) as of the end of the period covered by this Quarterly Report. The controls evaluation was done under the supervision and with the participation of management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO).

Attached as exhibits to this Quarterly Report are certifications of the CEO and the CFO, which are required in accordance with Rule 13a-15(e) of the Exchange Act. This Controls and Procedures section includes the information concerning the controls evaluation referred to in the certifications and it should be read in conjunction with the certifications for a more complete understanding of the topics presented.

#### **Definition of Disclosure Controls**

Disclosure Controls are controls and procedures designed to reasonably assure that information required to be disclosed in our reports filed under the Exchange Act, such as this Quarterly Report, is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure Controls are also designed to reasonably assure that such information is accumulated and communicated to our management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. Our Disclosure Controls include components of our internal control over financial reporting, which consists of control processes designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements in accordance with US generally accepted accounting principles. To the extent that components of our internal control over financial reporting are included within our Disclosure Controls, they are included in the scope of our quarterly controls evaluation.

#### **Limitations on the Effectiveness of Controls**

The company’s management, including the CEO and CFO, does not expect that our Disclosure Controls or our internal control over financial reporting will prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system’s objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

#### **Scope of the Controls Evaluation**

The evaluation of our Disclosure Controls included a review of the controls' objectives and design, the company's implementation of the controls and the effect of the controls on the information generated for use in this Quarterly Report. In the course of the controls evaluation, we sought to identify data errors, controls problems or acts of fraud and confirm that appropriate corrective action, including process improvements, were being undertaken. This type of evaluation is performed on a quarterly basis so that the conclusions of management, including the CEO and CFO, concerning controls effectiveness can be reported in our Quarterly Reports on Form 10-Q and to supplement our disclosures made in our Annual Report on Form 10-K. Many of the components of our Disclosure Controls are also evaluated on an ongoing basis by personnel in our Finance organization, as well as our independent auditors who evaluate them in connection with determining their auditing procedures related to their report on our annual financial statements and not to provide assurance on our controls. The overall goals of these various evaluation activities are to monitor our Disclosure Controls, and to modify them as necessary; our intent is to maintain the Disclosure Controls as dynamic systems that change as conditions warrant.

Among other matters, we also considered whether our evaluation identified any "significant deficiencies" or "material weaknesses" in our internal control over financial reporting, and whether the company had identified any acts of fraud involving personnel with a significant role in our internal control over financial reporting. This information was important both for the controls evaluation generally, and because item 5 in the certifications of the CEO and CFO require that the CEO and CFO disclose that information to our Board's Audit Committee and to our independent auditors. In the professional auditing literature, "significant deficiencies" are deficiencies in the design or operation of controls that could adversely affect our ability to record, process, summarize and report financial data in the financial statements. Auditing literature defines "material weakness" as a particularly serious significant deficiency where the internal control does not reduce to a relatively low level the risk that misstatements caused by error or fraud may occur in amounts that would be material in relation to the financial statements and the risk that such misstatements would not be detected within a timely period by employees in the normal course of performing their assigned functions. We also sought to address other control matters in the controls evaluation, and in each case if a problem was identified, we considered what revision, improvement and/or correction to make in accordance with our ongoing procedures.

## **Conclusions**

Based upon the controls evaluation, our CEO and CFO have concluded that, subject to the limitations noted above, as of the end of the period covered by this Quarterly Report, our Disclosure Controls were effective to provide reasonable assurance that material information relating to UCI and its consolidated subsidiaries is made known to management, including the CEO and CFO, particularly during the period when our periodic reports are being prepared.

**PART II**  
**OTHER INFORMATION**

**Item 1           Legal Proceedings**

We are a party to certain litigation that we consider routine and incidental to our business. Management does not expect the results of any of these actions to have a material effect on our business, results of operations or financial condition.

**Item 1A          Risk Factors**

Information regarding risk factors appears in Part I - Item 1A - Risk Factors of our report on Form 10-K for the fiscal year ended September 30, 2007. There have been no material changes from the risk factors previously disclosed in our report on Form 10-K.

**Item 2           Unregistered Sales of Equity Securities and Use of Proceeds**

This item is not applicable.

**Item 3           Defaults upon Senior Securities**

This item is not applicable.

**Item 4           Submission of Matters to a Vote of Security Holders**

This item is not applicable.

**Item 5           Other Information**

This item is not applicable.

**Item 6           Exhibits**

10.35 Promissory Note dated February 13, 2008 executed by UCI Properties, LLC and payable to Branch Banking and Trust Company in the original principal amount of up to \$3,500,000

10.36 Promissory Note dated July 16, 2008 executed by UCI Properties, LLC and payable to Carolina First Bank in the original principal amount of \$695,000

31.1 Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) of the Exchange Act.

31.2 Certification of Chief Financial Officer and Principal Accounting Officer Pursuant to Rule 13a-14(a) of the Exchange Act.

32 Certification of Chief Executive Officer and Chief Financial Officer and Principal Accounting Officer Pursuant to Rule 13a-14(b) of the Exchange Act and 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

99.1 Press Release dated August 11, 2008.

## 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 hereunto duly authorized.

UCI Medical Affiliates, Inc.  
(Registrant)

/s/ D. Michael Stout, M.D.  
D. Michael Stout, M.D.  
President and Chief Executive Officer

/s/ Jerry F. Wells, Jr., CPA  
Jerry F. Wells, Jr., CPA  
Executive Vice President,  
Chief Financial Officer and  
Principal Accounting Officer

Date: August 11, 2008