ALLIANCE HEALTHCARD INC
Form 10QSB
August 11, 2006
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2006

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ______ to ______

Commission File Number 0001087216

Alliance HealthCard, Inc.

(Exact name of registrant as specified in its charter)

GEORGIA	**58-2445301**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**

3500 Parkway Lane, Suite 720, Norcross, GA 30092

(Address of principal executive offices and zip code

Registrant s telephone number, including area code: (770) 734-9255

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 periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

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

Indicate the number of shares outstanding of the Registrant s common stock as of the latest practicable date.

Class	**Outstanding at August 11, 2006**
Common Stock, $.001 par value	4,524,263

INDEX

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Alliance HealthCard, Inc.

Consolidated Balance Sheets

	June 30, 2006	September 30, 2005
Assets		
Current assets:		
Cash and cash equivalents	$ 1,066,498	$ 961,391
Accounts receivable, net	195,884	332,499
Deferred tax asset	175,500	175,500
Prepaid expenses and other current assets	48,591	28,038
Total current assets	1,486,473	1,497,428
Furniture and equipment, net	5,259	22,179
Other assets	39,637	39,637
Total assets	$ 1,531,369	$ 1,559,244
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 374,053	$ 418,268
Accrued salaries and benefits	94,573	93,911
Deferred revenue	1,078,302	1,259,978
Other accrued liabilities	207,139	389,930
Total current liabilities	1,754,067	2,162,087
Commitments		
Stockholders equity:		
Common stock, $.001 par value; 100,000,000 shares authorized; 4,524,263 shares issued and outstanding at June 30, 2006 and September 30, 2005	2,323	2,323
Additional paid-in-capital	2,890,531	2,882,977
Accumulated deficit	(3,115,552)	(3,488,143)
Total stockholders equity	(222,698)	(602,843)
Total liabilities and stockholders equity	$ 1,531,369	$ 1,559,244

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

Table of Contents

Alliance HealthCard, Inc.

Consolidated Statements of Operations

	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Nine Months Ended June 30, 2006	Nine Months Ended June 30, 2005
Net revenues	$ 803,067	$ 899,365	$ 2,531,656	$ 2,675,052
Direct costs	305,840	279,278	911,820	914,211
Gross Profit	497,227	620,087	1,619,836	1,760,841
Marketing and sales expenses	69,427	33,053	199,153	142,817
General and administrative expenses	373,973	371,761	1,056,751	1,084,513
Operating income	53,827	215,273	363,932	533,511
Other income				
Interest income	1,400	206	8,659	206
Net income	$ 55,227	$ 215,479	$ 372,591	$ 533,717
Per share data:				
Basic	$ 0.01	$ 0.05	$ 0.08	$ 0.12
Diluted	$ 0.01	$ 0.05	$ 0.08	$ 0.12
Basic weighted average shares outstanding	4,524,263	4,524,263	4,524,263	4,524,263
Basic weighted diluted average shares outstanding	4,628,196	4,617,871	4,694,772	4,617,871

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

Table of Contents

Alliance HealthCard, Inc.

Consolidated Statements of Cash Flows

	Nine Months Ended June 30, 2006	Nine Months Ended June 30, 2005
Cash flows from operating activities		
Net income	$ 372,591	$ 533,717
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	16,919	28,772
Equity based compensation	7,554	
Change in operating assets and liabilities:		
Accounts receivable	136,615	26,944
Prepaid expenses and other assets	(20,552)	(17,937)
Other assets		(39,637)
Accounts payable	(44,215)	(3,282)
Accrued salaries and benefits	662	(78,992)
Deferred revenue and other accrued liabilities	(364,467)	(168,392)
Net cash provided by operating activities	105,107	281,193
Cash flows from investing activities		
Purchase of equipment		(1,120)
Net cash used in investing activities		(1,120)
Cash flows from financing activities		
Repayments of capital lease obligations		(203)
Net cash (used in) financing activities		(203)
Net increase in cash	105,107	279,870
Cash at beginning of period	961,391	457,848
Cash at end of period	$ 1,066,498	$ 737,718

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

Table of Contents

Alliance HealthCard, Inc.

Consolidated Notes to Financial Statements

June 30, 2006 and 2005

(Unaudited)

1. Description of the Business

Alliance HealthCard is a national health-care savings organization that creates, markets, and distributes membership savings programs to predominantly underserved markets where individuals either have limited health benefits, or no insurance. Programs encompass services in more than 16 areas of health care, including physician visits, hospital stays, chiropractics, vision, dental, pharmacy, hearing and patient advocacy. Alliance offers its programs to predominantly underserved markets, where individuals either have limited health benefits, or no insurance. These markets may vary widely, from senior populations with Medicare who have no prescription benefits to part-time employees and the uninsured looking for lower cost medical services and access to providers.

2. Summary of Significant Accounting Policies

The accompanying financial statements are un-audited and have been prepared by management of the Company in accordance with the rules and regulations of the Securities and Exchange Commission. The un-audited financial information furnished herein in the opinion of management reflects all adjustments, which are of a normal recurring nature, that are necessary to fairly state the Company s financial position, the results of its operations and its cash flows. For further information refer to the financial statements and footnotes thereto included in the Company s Form 10-KSB for the year ended September 30, 2005. Footnote disclosures, which would substantially duplicate the disclosure contained in those documents, have been omitted.

3. Principles of Consolidation

The consolidated financial statements of Alliance HealthCard, Inc. and subsidiary (the Company) include the accounts of its wholly owned subsidiary: Alliance HealthCard of Florida, Inc. All significant intercompany accounts and transactions have been eliminated.

4. Stock Based Compensation

On January 1, 2006, we adopted, using a modified version of prospective application, SFAS 123(R), Share Based Payment (SFAS 123(R)). SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values at the date of grant. SFAS 123(R) did not change the accounting guidance for share-based payment transactions with parties other than employees provided in SFAS 123, Accounting for Stock Based Compensation (SFAS 123), as originally issued and Emerging Issues Task Force (EITF) 96-18, Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services.

Upon our adoption of SFAS 123(R), we began recording compensation cost related to stock options outstanding as of January 1, 2006 for which the service period related to the stock options had not been completed, as well as for all new stock option grants after our adoption date. The compensation cost to be recorded is based on the fair value at the grant date and the expense is recognized over the period of service related to the options (typically the vesting period). The adoption of SFAS 123(R) did not have an effect on our recognition of compensation expense relating to the vesting of restricted stock grants or warrants.

Prior to our adoption of SFAS 123(R), we accounted for equity-based compensation under the provisions and related interpretations of Accounting Principles Board Statement 25, Accounting for Stock Issued to Employees (APB 25). Accordingly, we were not required to record compensation expense when stock options were granted to our employees as long as the exercise price was not less than the fair market value of the stock at the grant date.

Table of Contents

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for all options outstanding as of the three-month period ended June 30, 2006: dividend yield of 0%; volatility of .1%; risk-free interest rate of 4.54%; expected forfeiture rate of 25%; weighted average exercise price of $0.89; and expected life of 5.0 years.

In the quarter ended June 30, 2006, we recognized equity-based compensation expense of approximately $3,777 related to the vesting of stock options. As of June 30, 2006, we had approximately $7,554 of future compensation expense that we expect to record in our statements of operations through 2006.

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

Certain information included in this Quarterly Report on Form 10-Q contains, and other reports or materials filed or to be filed by the Company with the Securities and Exchange Commission (as well as information included in oral statements or other written statements made or to be made by the Company or its management) contain or will contain, forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, Section 27A of the Securities Act of 1933, as amended and pursuant to the Private Securities Litigation Reform Act of 1995. Such forward-looking statements may relate to financial results and plans for future business activities, and are thus prospective. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from future results expressed or implied by such forward-looking statements. Among the important factors that could cause actual results to differ materially from those indicated by such forward-looking statements are competitive pressures, loss of significant customers, the mix of revenue, changes in pricing policies, delays in revenue recognition, lower-than-expected demand for the Company s products and services, business conditions in the integrated health care delivery network market, general economic conditions, and the risk factors detailed from time to time in the Company s periodic reports and registration statements filed with the Securities and Exchange Commission. Any forward-looking statements are made pursuant to the Private Securities Litigation Reform Act of 1995 and as such speak only as of the date made.

Results of Operations

Alliance HealthCard is not an insurance provider, but is a provider of an innovative membership organization that receives discounts for healthcare-related products and services from networks of providers. Alliance offers its programs to consumers who are underinsured, uninsured and to individuals who participate in employer sponsored health plans that provide primary health insurance, but do not provide insurance coverage for certain healthcare-related services and products.

Three Months Ended June 30, 2006, Compared to Three Months Ended June 30, 2005

Net revenues for the Company decreased to $803,607 for the three months ended June 30, 2006 from $899,365 for the three months ended June 30, 2005. The decrease is primarily attributable to a decline in membership renewals for the CVS Pharmacy contract. Revenues slightly increased for the Melaleuca contract and prescription rebate fees.

Gross profit decreased $122,860 to $497,227 for the three months ended June 30, 2006 from $620,087 for the same prior year period. The decrease in gross profit is attributable to the decline in revenues of $96,298. There was also an increase in direct costs of $26,562 due to a one-time adjustment for the quarter ended June 30, 2005.

Marketing and sales expenses increased to $69,427 for the three months ended June 30, 2006, from $33,053 in the same prior year period. The increase is attributable to the following items: a) an increase in compensation expense of $19,748 resulting from an increase in sales personnel; b)$15,562 related to additional commission expense related to prescription rebate revenue; and c) other small changes of $1,064.

General and administrative expenses increased to $373,973 for the three months ended June 30, 2006 from $371,761 in the same prior year period. The decrease is attributable to immaterial changes in multiple expense categories.

Interest income increased $1,194 for the three months ended June 30, 2006 due to interest earned on the excess cash balance for the quarter.

Table of Contents

The Company reported net income of $55,227 for the three months ended June 30, 2006 compared to $215,479 for the same prior year period. As discussed above, the increase is primarily attributable to the decline in revenues and the increase in sales and marketing expenses.

Nine Months Ended June 30, 2006 Compared to Nine Months Ended June 30, 2005

Net revenues for the Company decreased $143,396 to $2,531,656 for the nine months ended June 30, 2006. Revenues for the CVS Pharmacy, State Farm and dental products declined by $269,209 resulting from a decline in membership renewals. Revenues increased by $125,813 for Melaleuca, prescription rebate fees and other small contracts.

Gross profit decreased $141,005 to $1,619,836 for the nine months ended June 30, 2006 from $1,760,841 for the same nine-month period in the prior year. The net decrease in gross profit is a direct result of the decline in revenue discussed above.

Marketing and sales expenses increased to $199,153 for the nine months ended June 30, 2006 from $142,817 in the same prior year. The increase is a result of the following: a) an increase in compensation expense of $25,684 due to additional sales personnel; b) an increase in commission expense of $33,107 related to prescription rebate revenue; and c) other small changes account for the remaining decrease of $2,455.

General and administrative expenses decreased to $1,056,751 for the nine months ended June 30, 2006 from $1,084,513 in the same prior year period. The decrease of $27,762 was primarily attributable to a decline in compensation expense of $43,777 offset by an increase in consulting expense of $16,282. Other small changes account for the remaining decrease of $267.

Interest income increased to $8,659 for the nine months ended June 30, 2006 due to interest earned on the excess cash balance for the nine months ended June 30, 2006.

The Company reported net income of $372,591 for the nine months ended June 30, 2006 compared to $533,717 for the same prior year period. As discussed above, the decrease in net income is primarily attributable to the decline in revenue, slightly offset by a decrease in general and administrative expenses.

Liquidity and Capital Resources

The Company s operations provided cash of $105,107 for the nine months ended June 30, 2006 as a result of the following: a) net income of $372,591; b) a decrease in deferred revenue of $181,676 primarily attributable to decline in membership renewals for the CVS Pharmacy contract; c) a decline in other accrued liabilities of $182,791 primarily attributable to the settlement of the Medco Health Solutions law suit for $200,000; d) a decrease in accounts receivable of $136,615 due to timing differences in multiple accounts and e) other net changes in assets and liabilities of $39,630.

The Company s net working capital increased $397,065 to $(267,594) for the nine months ended June 30, 2006 from $(664,659) at September 30, 2005. The increase in net working capital is attributable to the following decreases in current liabilities: a) deferred revenue of $181,676; b) accrued expenses of $182,791; c) accounts payable of $44,215 resulting from timing differences and d) other small increases of $662. The decrease in current liabilities was offset by: a) a decline in current assets of $10,955 consisting of an increase in cash of $105,107 offset by a decrease in accounts receivable and other current assets of $116,063 primarily related to timing differences in multiple accounts.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company has no material exposure to market risk from derivatives or other financial instruments as of June 30, 2006.

Table of Contents

ITEM 4. CONTROLS AND PROCEDURES

The SEC defines the term disclosure controls and procedures to mean a company s controls and other procedures that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the SEC s rules and forms. The Company s principal executive officer and principal financial officer, based on their evaluation of the effectiveness of the Company s disclosure controls and procedures as of the end of the quarterly period covered by this report, concluded that the Company s disclosure controls and procedures were effective for this purpose.

Internal control over financial reporting consists of control processes designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company s financial statements for external reporting purposes in accordance with GAAP. To the extent that components of the Company s internal control over financial reporting are included in the Company s disclosure controls, they are included in the scope of the evaluation by the Company s principal executive officer and principal financial officer referenced above. There were no significant changes in the Company s internal control over financial reporting during the Company s fourth fiscal quarter of 2005 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 6. Exhibits

Exhibit 31.1 Certification Pursuant to Rule 13a-14(a) under the Securities Exchange act of 1934, as amended

Exhibit 31.2 Certification Pursuant to Rule 13a-14(a) under the Securites Exchange act of 1934, as amended.

Exhibit 32.1 - Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit 32.2 - Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Table of Contents

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.

	Alliance HealthCard, Inc.
August 11, 2006	By: /s/ Robert D. Garces Robert D. Garces Chairman and Chief Executive Officer (Principal Executive Officer)
August 11, 2006	By: /s/ Rita McKeown Rita McKeown Chief Financial Officer (Principal Financial and Accounting Officer)

10