

ALLIANCE HEALTHCARD INC

Form 10QSB

May 12, 2006

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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 MARCH 31, 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 000-30099

Alliance HealthCard, Inc.

(Exact name of registrant as specified in its charter)

GEORGIA
(State or other jurisdiction of

incorporation or organization)

3500 Parkway Lane, Suite 720, Norcross, GA 30092

(Address of principal executive offices and zip code)

58-2445301
(I.R.S. Employer

Identification No.)

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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 ☒ 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 May 11, 2006
Common Stock, \$.001 par value	4,524,263

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****Alliance HealthCard, Inc.****Consolidated Balance Sheets**

	March 31, 2006	September 30, 2005
Assets		
Current assets:		
Cash and cash equivalents	\$ 675,461	\$ 961,391
Accounts receivable, net	225,627	332,499
Deferred tax asset	175,500	175,500
Prepaid expenses and other current assets	33,885	28,038
Total current assets	1,110,473	1,497,428
Furniture and equipment, net	10,899	22,179
Other assets	39,637	39,637
Total assets	\$ 1,161,009	\$ 1,559,244
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 367,977	\$ 418,268
Accrued salaries and benefits	48,174	93,911
Deferred revenue	853,239	1,259,978
Other accrued liabilities	173,321	389,930
Total current liabilities	1,442,711	2,162,087
Commitments		
Stockholders' equity:		
Common stock, \$.001 par value; 100,000,000 shares authorized; 4,524,263 shares issued and outstanding at March 31, 2006 and September 30, 2005	2,323	2,323
Additional paid-in-capital	2,886,754	2,882,977
Accumulated deficit	(3,170,779)	(3,488,143)
Total stockholders' equity	(281,702)	(602,843)
Total liabilities and stockholders' equity	\$ 1,161,009	\$ 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 March 31,		Six Months Ended March 31,	
	2006	2005	2006	2005
Net revenues	\$ 837,741	\$ 876,940	\$ 1,728,589	\$ 1,775,687
Direct costs	311,057	320,836	605,979	634,933
Gross Profit	526,684	556,104	1,122,610	1,140,754
Marketing and sales expenses	67,067	47,925	129,727	109,764
General and administrative expenses	362,402	364,707	682,778	712,752
Operating income	97,215	143,472	310,105	318,238
Other income				
Interest income	3,175		7,259	
Net income	\$ 100,390	\$ 143,472	\$ 317,364	\$ 318,238
Per share data:				
Basic	\$ 0.02	\$ 0.03	\$ 0.07	\$ 0.07
Diluted	\$ 0.02	\$ 0.03	\$ 0.07	\$ 0.07
Basic weighted average shares outstanding	4,524,263	4,524,263	4,524,263	4,524,263
Basic weighted diluted average shares outstanding	4,769,029	4,650,909	4,757,766	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**

	Six Months Ended March 31,	
	2006	2005
Cash flows from operating activities		
Net income	\$ 317,364	\$ 318,238
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	11,279	17,984
Equity based compensation	3,777	
Change in operating assets and liabilities:		
Accounts receivable	106,872	107,524
Prepaid expenses and other assets	(5,847)	(33,199)
Other assets		(39,637)
Accounts payable	(50,291)	(21,168)
Accrued salaries and benefits	(45,736)	(109,495)
Deferred revenue and other accrued liabilities	(623,348)	(379,706)
Net cash used in operating activities	(285,930)	(139,459)
Cash flows from financing activities		
Repayments of capital lease obligations		(203)
Net cash (used in) provided by financing activities		(203)
Net decrease in cash	(285,930)	(139,662)
Cash at beginning of period	961,391	457,848
Cash at end of period	\$ 675,461	\$ 318,186

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

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Alliance HealthCard, Inc.

Consolidated Notes to Financial Statements

March 31, 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.

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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 March 31, 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 March 31, 2006, we recognized equity-based compensation expense of approximately \$3,777 related to the vesting of stock options. As of March 31, 2006, we had approximately \$11,331 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 March 31, 2006, Compared to Three Months Ended March 31, 2005

Net revenues for the Company decreased to \$837,741 for the three months ended March 31, 2006 from \$876,940 for the three months ended March 31, 2005. The decrease is attributable to a reduction in card renewals for their second and third year terms for the CVS Pharmacy and State Farm contracts. Revenues slightly increased for the Melaleuca contract and prescription rebate fees.

Gross profit decreased \$29,420 to \$526,684 for the three months ended March 31, 2006 from \$556,104 for the same prior year period. The decrease in gross profit is primarily attributable to the decline in revenue for the CVS Pharmacy and State Farm contracts.

Marketing and sales expenses increased to \$67,067 for the three months ended March 31, 2006, from \$47,925 in the same prior year period. The increase is attributable to the following items: a) an increase in commission expense of \$9,300 related to additional prescription rebate revenue; b) an increase in marketing conference expenses of \$9,258 relating to the development of a new sales campaign; and c) other small changes of \$584.

General and administrative expenses decreased to \$362,402 for the three months ended March 31, 2006 from \$364,707 in the same prior year period. The decrease is attributable to immaterial changes in multiple expense categories.

Interest income increased \$3,175 for the three months ended March 31, 2006 due to interest earned on the excess cash balance for the quarter.

The Company reported net income of \$100,390 for the three months ended March 31, 2006 compared to \$143,472 for the same prior year period. The decrease is a direct result of the decline in revenue related to the CVS & State Farm contracts.

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Six Months Ended March 31, 2006 Compared to Six Months Ended March 31, 2005

Net revenues for the Company decreased \$47,098 to \$1,728,589 for the six months ended March 31, 2006. Revenues for the CVS Pharmacy, State Farm and dental resell contracts declined by \$154,462 that resulted from a reduction in card renewals for their second and third year terms. Revenues increased by \$107,364 for Melaleuca, prescription rebate fees and other small contracts.

Gross profit decreased \$18,144 to \$1,122,610 for the six months ended March 31, 2006 from \$1,140,754 for the same six-month period in the prior year. The net decrease in gross profit is primarily attributable to the decline of card revenue for CVS and State Farm.

Marketing and sales expenses increased to \$129,727 for the six months ended March 31, 2006 from \$109,764 in the same prior year. The increase is a result of an increase in commission expense related to prescription rebate revenue and an increase in marketing conference expense for the six months ended March 31, 2006. The change is primarily attributable to an increase in commission expense of \$17,545 related to the prescription rebate revenue. Other small changes account for the remaining increase of \$2,418.

General and administrative expenses decreased to \$682,778 for the six months ended March 31, 2006 from \$712,752 in the same prior year period. The decrease of \$29,974 was attributable primarily due to a decline in consulting expense for the six months ended March 31, 2006.

Interest income increased \$7,259 for the six months ended March 31, 2006 due to interest earned on the excess cash balance for the six months ended March 31, 2006.

The Company reported net income of \$317,364 for the six months ended March 31, 2006 compared to \$318,238 for the same prior year period. Although revenue and gross profit declined, the Company reduced its general and administrative expense that offset the decline in revenue.

Liquidity and Capital Resources

The Company's operations used cash of \$285,930 for the six months ended March 31, 2006 as a result of the following: a) net income of \$317,364; b) a decrease in deferred revenue of \$406,739 for the CVS Pharmacy and State Farm contracts due to a decline in memberships; c) a decline in other accrued liabilities of \$216,609 primarily attributable to the settlement of the Medco Health Solutions law suit for \$200,000 and an increase in other liabilities of \$16,609 and d) other net changes in assets and liabilities of \$20,054.

The Company's net working capital increased \$332,421 to \$(332,238) for the six months ended March 31, 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 \$406,739; b) accrued expenses of \$216,609; c) accrued salaries of \$45,737 related to the repayment of a prior year salary deferral and d) a decrease in accounts payable of \$50,291 resulting from timing differences. The decrease in current liabilities was offset by: a) a decline in current assets of \$386,955 consisting of a decline in cash of \$285,930 as discussed above plus a decline in accounts receivable and other current assets of \$101,025 primarily related to CVS, State Farm and Melaleuca contracts.

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 March 31, 2006.

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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 Securities 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

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SIGNATURES

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

Alliance HealthCard, Inc.

May 11, 2006

By: /s/ Robert D. Garces
Robert D. Garces
Chairman and Chief Executive Officer
(Principal Executive Officer)

May 11, 2006

By: /s/ Rita McKeown
Rita McKeown
Chief Financial Officer
(Principal Financial and Accounting Officer)