

ALLIANCE HEALTHCARD INC
Form 10QSB
August 10, 2004
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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 June 30, 2004

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)

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GEORGIA
(State or other jurisdiction of
incorporation or organization)

58-2445301
(I.R.S. Employer
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 No

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

<u>Class</u>	<u>Outstanding at July 31, 2004</u>
Common Stock, \$.001 par value	4,494,263

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

	June 30,	September 30,
	2004	2003
	<u> </u>	<u> </u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 787,050	\$ 249,831
Accounts receivable, net	1,539,719	1,402,817
Prepaid expenses and other current assets	34,099	154,772
	<u> </u>	<u> </u>
Total current assets	2,360,868	1,807,420
Furniture and equipment, net	51,031	75,709
Other assets	10,249	10,249
	<u> </u>	<u> </u>
Total assets	\$ 2,422,148	\$ 1,893,378
	<u> </u>	<u> </u>
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	\$ 1,530,452	\$ 1,680,877
Accrued salaries and benefits	269,425	248,239
Deferred revenue	1,480,017	1,837,532
Other accrued liabilities	186,270	149,360
Notes payable	565,200	176,951
Current portion of capital lease obligations	1,312	4,076
	<u> </u>	<u> </u>
Total current liabilities	4,032,676	4,097,035
Capital lease obligation		174
Commitments		
Stockholders equity:		
Common stock, \$.001 par value; 100,000,000 shares authorized; 4,494,263 shares issued and outstanding at June 30, 2004 and September 30, 2003	2,273	2,273
Additional paid-in-capital	2,848,027	2,848,027
Accumulated deficit	(4,460,828)	(5,054,131)
	<u> </u>	<u> </u>
Total stockholders equity	(1,610,528)	(2,203,831)
	<u> </u>	<u> </u>
Total liabilities and stockholders equity	\$ 2,422,148	\$ 1,893,378
	<u> </u>	<u> </u>

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

Table of Contents**Alliance HealthCard, Inc.****Statements of Operations**

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2004	2003	2004	2003
Net revenues	\$ 962,737	\$ 1,151,885	\$ 2,924,658	\$ 3,252,488
Direct costs	296,562	707,428	1,021,601	1,855,580
Gross Profit	666,175	444,457	1,903,057	1,396,908
Marketing and sales expenses	49,571	341,226	276,473	1,078,468
General and administrative expenses	355,228	354,968	1,014,983	1,100,372
Operating income (loss)	261,376	(251,737)	611,601	(781,932)
Other income (expense):				
Other				112,750
Interest, net	(5,685)	(7,107)	(18,298)	(20,347)
Net income (loss)	\$ 255,691	\$ (258,844)	\$ 593,303	\$ (689,529)
Per share data:				
Basic	\$ 0.06	\$ (0.06)	\$ 0.13	\$ (0.16)
Diluted	\$ 0.05	\$ (0.06)	\$ 0.13	\$ (0.16)
Basic weighted average shares outstanding	4,494,263	4,469,208	4,494,263	4,447,787
Basic weighted diluted average shares outstanding	4,712,856	4,469,208	4,568,412	4,447,787

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

Table of Contents**Alliance HealthCard, Inc.****Statements of Cash Flows**

	Nine Months Ended	
	June 30,	
	2004	2003
Cash flows from operating activities		
Net income (loss)	\$ 593,303	\$ (689,529)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation	31,076	18,472
Change in operating assets and liabilities:		
Accounts receivable	(136,902)	(367,461)
Prepaid expenses and other assets	120,673	345,556
Accounts payable	(150,425)	666,274
Accrued salaries and benefits	21,186	47,864
Deferred revenue and other accrued liabilities	(320,605)	(251,684)
Net cash provided by (used in) operating activities	158,306	(230,508)
Cash flows from investing activities		
Purchase of equipment	(6,398)	(1,246)
Net cash used in investing activities	(6,398)	(1,246)
Cash flows from financing activities		
Borrowings (repayments) of debt	388,249	(95,764)
Sale of stock and other issuances		55,166
Repayments of capital lease obligations	(2,938)	(7,562)
Net cash provided by (used in) financing activities	385,311	(48,160)
Net increase (decrease) in cash	537,219	(279,914)
Cash at beginning of period	249,831	1,175,945
Cash at end of period	\$ 787,050	\$ 896,031

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

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Alliance HealthCard, Inc.

Notes to Financial Statements

June 30, 2004 and 2003

(Unaudited)

1. Description of the Business

Alliance HealthCard, Inc. (hereinafter referred to as Alliance or the Company) specializes in creating, marketing and distributing value added healthcare savings programs, services, and products. Alliance gives individuals and families access to healthcare providers offering up to 16 major healthcare services at significantly discounted fees for a low annual fee. Alliance markets to predominantly underserved markets where individuals either have limited health benefits, or no insurance. These markets may vary widely from senior populations with Medicare (no prescription benefits), part-time employees, to pockets of the over 40 million uninsured looking for lower cost medical services and access to providers.

2. Summary of Significant Accounting Policies

The accompanying financial statements are unaudited and have been prepared by management of the Company in accordance with the rules and regulations of the Securities and Exchange Commission. The unaudited 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, 2003. Footnote disclosures, which would substantially duplicate the disclosure contained in those documents, have been omitted.

Net loss per share is computed in accordance with SFAS No. 128 Earnings per Share. Basic and diluted net loss per share are the same for the three and nine months ended June 30, 2003 because the Company's potentially dilutive securities are anti-dilutive in such periods.

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

General

Alliance HealthCard, Inc. specializes in creating, marketing and distributing value added healthcare savings programs, services, and products. Alliance gives individuals and families access to healthcare providers offering up to 16 major healthcare services at significantly discounted fees for a low annual fee. Alliance markets to predominantly underserved markets where individuals either have limited health benefits, or no insurance. These markets may vary widely from senior populations with Medicare (no prescription benefits), part-time employees, to pockets of the over 40 million uninsured looking for lower cost medical services and access to providers.

Results of Operations

Three Months Ended June 30, 2004, Compared to Three Months Ended June 30, 2003

Net revenues for the Company decreased to \$962,737 for the three months ended June 30, 2004 from \$1,151,885 for the three months ended June 30, 2003. The decrease is primarily attributable to a decline of card revenue related to the CVS Pharmacy, Inc. contract for the quarter ended June 30, 2004.

Gross profit increased \$221,718 to \$666,175 for the three months ended June 30, 2004 from \$444,457 for the same prior year period. The increase in gross profit was primarily attributable to a reduction of network expense due to a change in a majority of the Company's networks. The change resulted in lower monthly fees and also increased the number of providers available to card members. In addition to a change in networks, there was also a decrease of implementation expense for the State Farm Mutual Automobile Insurance Company. For total contract implementation costs in excess of \$5,000, the Company records that expense over the first twelve-month term of the contract. The first twelve-month term of the State Farm contract ended on June 30, 2003.

Marketing and sales expenses decreased to \$49,571 for the three months ended June 30, 2004, from \$341,226 in the same prior year period. The decrease is due to a reduction of royalty expense resulting from an amendment to the CVS Pharmacy, Inc. contract in 2003.

The Company reported net income of \$255,691 for the three months ended June 30, 2004 compared to a net loss of \$258,844 for the same prior year period. The increase in net income was primarily attributable to the decline in the Company's network and royalty expenses as discussed above.

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Nine Months Ended June 30, 2004 Compared to Nine Months Ended June 30, 2003

Net revenues for the Company decreased \$327,830 to \$2,924,658 for the nine months ended June 30, 2004. The decrease is attributable to a decline of card revenue related to the CVS Pharmacy, Inc. contract for the year ended June 30, 2004.

Gross profit increased \$506,149 to \$1,903,057 for the nine months ended June 30, 2004 from \$1,396,908 for the same nine-month period in the prior year. The increase in gross profit was primarily attributable to a reduction of network expense due to a change in a majority of the Company's networks and a decline of implementation expense for the State Farm Mutual Automobile Insurance Company.

Marketing and sales expenses decreased to \$276,473 for the nine months ended June 30, 2004 from \$1,078,468 in the same prior year. The decrease is due to a reduction of royalty expense resulting from an amendment to the CVS Pharmacy, Inc. contract in 2003.

General and administrative expenses decreased to \$1,014,983 for the nine months ended June 30, 2004 from \$1,100,372 in the same prior year period. The decrease of \$85,389 was primarily attributable to the following: (a) compensation expense of \$77,970 resulting from a change in the Company's infrastructure, and (b) a decrease of \$7,419 for general office expenses primarily for telecommunication and other office expenses.

Other income decreased \$112,750 for the nine months ended June 30, 2004. The Company received reimbursement of expenses of \$112,750 for the same prior year period from CVS Pharmacy, Inc. related to a direct mail campaign. Interest expense slightly decreased by \$2,049.

The Company reported net income of \$593,303 for the nine months ended June 30, 2004 compared to a loss of \$689,529 for the same prior year period. The increase of net income was primarily attributable to the decline in the Company's network and royalty expenses, as well as the decrease in general and administrative expenses, as discussed above.

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Liquidity and Capital Resources

The Company's operations provided cash of \$158,306 for the nine months ended June 30, 2004 as a result of the following: a) net income of \$593,303; b) an increase in accounts receivable of 136,902; c) a decrease in prepaid expenses of \$120,673; d) a decrease in other liabilities of \$449,844 that was primarily a result of a decrease in deferred revenue related to the State Farm and CVS contracts. Membership fees are generally paid to the Company on a monthly or annual basis. Membership fees paid in advance on an annual basis are recognized monthly over the applicable twelve-month membership term.

The Company's net working capital increased \$617,807 to \$(1,671,808) for the nine months ended June 30, 2004 from \$(2,289,615) at September 30, 2003. The increase in net working capital was primarily a result of the following: a) an increase of \$553,448 in current assets; b) a net decrease in current liabilities of \$64,359, consisting primarily of a decrease in deferred revenue of \$357,515 caused by the State Farm Mutual and CVS Pharmacy contracts offset by an increase in the Company's line of credit of \$388,249.

The Company's financing activities for the nine months ended June 30, 2004 provided cash of \$385,311 primarily from an increase in the outstanding balance on the Company's line of credit. The Company has \$84,800 available on its line of credit at June 30, 2004.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company has no material exposure to market risk from derivatives or other financial instruments.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On November 19, 2003, Alliance filed a lawsuit against Medco Health Solutions, Inc. The lawsuit, styled Alliance HealthCard, Inc. v. Medco Health Solutions, Inc. was filed in the Superior Court of Gwinnett County, State of Georgia. The lawsuit alleged that Medco Health Solutions, Inc. had breached certain representations and warranties contained in that same contract and its addendums by failing to pay the Company the fees and/or rebates owed to the Company in excess of \$1,500,000. Alliance is seeking the following: (a) that this case be tried by a jury; (b) that the Plaintiff be awarded compensatory damages in an amount to be determined at trial by the jury; (c) Plaintiff be awarded punitive damages in an amount which in the eyes of the jury appear just and proper to deter similar future conduct by the Defendants; (d) the Plaintiff be awarded expenses of litigation including attorneys fees for the filing and prosecution of this action. The lawsuit is in an early procedural stage, however, and therefore it is not possible at this time to determine the outcome of the actions or the effect, if any, that their outcome may have on the Company's results of operations and financial condition. There can be no assurance that this litigation will not have a material adverse effect on the Company's results of operations and financial condition.

Item 6. Exhibits and Reports on Form 8-K

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(a) The Company did not file any reports on Form 8-K during the three months ended June 30, 2004.

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.

August 9, 2004

By: /s/ Robert D. Garces

Robert D. Garces
Chairman and Chief Executive Officer
(Principal Executive Officer)

August 9, 2004

By: /s/ Rita McKeown

Rita McKeown
Chief Financial Officer
(Principal Financial and Accounting Officer)