

ALLIANCE HEALTHCARD INC
Form 10QSB
February 13, 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 DECEMBER 31, 2005

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)

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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 by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

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.

| <u>Class</u> | <u>Outstanding at January 31, 2006</u> |
|--------------------------------|--|
| 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**

| | December 31, | September 30, |
|--|-------------------|-------------------|
| | 2005 | 2005 |
| | <u> </u> | <u> </u> |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 705,865 | \$ 961,391 |
| Accounts receivable, net | 261,228 | 332,499 |
| Deferred tax asset | 175,500 | 175,500 |
| Prepaid expenses and other current assets | 29,937 | 28,038 |
| | <u> </u> | <u> </u> |
| Total current assets | 1,172,530 | 1,497,428 |
| Furniture and equipment, net | 16,539 | 22,179 |
| Other assets | 39,637 | 39,637 |
| | <u> </u> | <u> </u> |
| Total assets | \$ 1,228,706 | \$ 1,559,244 |
| | <u> </u> | <u> </u> |
| Liabilities and stockholders equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 368,043 | \$ 418,268 |
| Accrued salaries and benefits | 81,756 | 93,911 |
| Deferred revenue | 954,530 | 1,259,978 |
| Other accrued liabilities | 210,246 | 389,930 |
| | <u> </u> | <u> </u> |
| Total current liabilities | 1,614,575 | 2,162,087 |
| | <u> </u> | <u> </u> |
| Commitments | | |
| Stockholders equity: | | |
| Common stock, \$.001 par value; 100,000,000 shares authorized; 4,524,263 shares issued and outstanding at December 31, 2005 and September 30, 2005 | 2,323 | 2,323 |
| Additional paid-in-capital | 2,882,977 | 2,882,977 |
| Accumulated deficit | (3,271,169) | (3,488,143) |
| | <u> </u> | <u> </u> |
| Total stockholders equity | (385,869) | (602,843) |
| | <u> </u> | <u> </u> |
| Total liabilities and stockholders equity | \$ 1,228,706 | \$ 1,559,244 |
| | <u> </u> | <u> </u> |

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

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

| | Three Months Ending | |
|-------------------------------------|----------------------------|-------------------|
| | December 31, | |
| | 2005 | 2004 |
| Net revenues | \$ 890,848 | 898,747 |
| Direct costs | 294,922 | 314,097 |
| Gross profit | 595,926 | 584,650 |
| Marketing and sales expenses | 62,660 | 61,839 |
| General and administrative expenses | 320,376 | 348,045 |
| Operating income | 212,890 | 174,766 |
| Other income | | |
| Interest income | 4,084 | |
| | 4,084 | |
| Net income | \$ 216,974 | \$ 174,766 |
| Per share data: | | |
| Basic income | \$ 0.05 | \$ 0.04 |
| Diluted income | \$ 0.05 | \$ 0.04 |
| Basic weighted average shares | | |
| Outstanding | 4,524,263 | 4,524,263 |
| Diluted weighted average shares | | |
| Outstanding | 4,731,576 | 4,594,308 |

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

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

| | Three Months Ended December 31, | |
|---|--|-------------------|
| | 2005 | 2004 |
| Cash flows from operating activities | | |
| Net income | \$ 216,974 | \$ 174,766 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Depreciation and amortization | 5,638 | 7,195 |
| Change in operating assets and liabilities: | | |
| Accounts receivable | 71,271 | 30,814 |
| Prepaid expenses and other assets | (1,899) | (25,083) |
| Accounts payable | (50,225) | (218) |
| Accrued salaries and benefits | (12,154) | (84,019) |
| Deferred revenue and other accrued liabilities | (485,131) | (351,047) |
| Net cash used in operating activities | <u>(255,526)</u> | <u>(247,592)</u> |
| Net decrease in cash | (255,526) | (247,592) |
| Cash at beginning of period | 961,391 | 457,848 |
| Cash at end of period | <u>\$ 705,865</u> | <u>\$ 210,256</u> |

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

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Alliance HealthCard, Inc.

Consolidated Notes to Financial Statements

December 31, 2005 and 2004

(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.

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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 December 31, 2005, Compared to Three Months Ended December 31, 2004

Net revenues for the Company slightly decreased to \$890,848 for the three months ended December 31, 2005 from \$898,747 for the three months ended December 31, 2004. The change is a result of an increase of \$69,410 from the Melaleuca contract and prescription transaction fees. The increase in revenues was offset by a decrease of \$77,309 for the CVS Pharmacy, State Farm and dental contracts due to a decline in memberships.

Gross profit increased \$11,276 to \$595,926 for the three months ended December 31, 2005 from \$584,650 for the same prior year period. The increase in gross profit is attributable to higher gross profit percentage for the Melaleuca contract resulting from an amendment to the contract in October 2005.

Marketing and sales expenses remained constant with expenses at \$62,660 for the three months ended December 31, 2005, and \$61,839 for the same prior year period.

General and administrative expenses decreased to \$320,376 for the three months ended December 31, 2005 from \$348,045 in the same prior year period resulting from a decline in consulting expense from 2004 to 2005.

Interest income increased \$4,084 for the three months ended December 31, 2005 due to interest earned on the excess cash balance for the quarter.

The Company reported net income of \$216,974 for the three months ended December 31, 2005 compared to \$174,766 for the same prior year period. As discussed above, the increase of \$42,208 is a result of an increase in gross profit and the decline in general and administrative expenses.

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Liquidity and Capital Resources add depreciation

The Company's operations used cash of \$255,526 for the three months ended December 31, 2005 as a result of the following: a) net income of \$216,974; b) a decrease in accounts receivable of \$71,271 related to minor changes for the Melaleuca, State Farm and CVS contracts; c) a decrease in deferred revenue of \$305,448 for the CVS Pharmacy and State Farm contracts due to a decline in memberships; d) a decline in other accrued liabilities of \$179,684 primarily attributable to the settlement of the Medco Health Solutions law suit for \$200,000 and an increase in other liabilities of 20,316; e) a decrease in accounts payable of \$50,225 due to a decrease in fulfillment expense of \$16,186 for the Melaleuca contract, a decrease in rent and telephone payables of \$12,085 and other decreases of \$21,954; f) a decrease in accrued wages of \$12,154 related to the payment of deferred salaries for a prior year; and g) other net increases of \$3,740.

The Company's net working capital increased \$222,614 to \$(442,045) for the three months ended December 31, 2005 from \$(664,659) at September 30, 2005. The increase in net working capital is attributable to the following: a) a decrease in current liabilities of \$547,512 consisting of a decline in deferred revenue of \$305,448 for the CVS Pharmacy and State Farm contracts, decline in other accrued liabilities of \$179,684 attributable to the settlement of the Medco Health Solutions law suit for \$200,000 offset by an increase in other liabilities of 20,316 and a decline in accounts payable and deferred salaries of \$62,380 b) a decline in cash of \$255,526 discussed above; and c) a decline in accounts receivable and other assets of \$69,372.

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 December 31, 2005.

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 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 Company's disclosure controls and procedures as of the end of the quarterly period covered by this report, have 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 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 changes in the Company's internal control over financial reporting during the Company's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

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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.

February 9, 2006

By: /s/ Robert D. Garces

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

February 9, 2006

By: /s/ Rita McKeown

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