

ALLIANCE HEALTHCARD INC

Form 10QSB

May 13, 2005

[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 MARCH 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)

Edgar Filing: ALLIANCE HEALTHCARD INC - Form 10QSB

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 May 3, 2005</u>
Common Stock, \$.001 par value	4,524,263

Table of Contents

INDEX

	<u>PAGE</u>
PART I. <u>FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements</u>	
<u>Consolidated Balance Sheets as of March 31, 2005 and September 30, 2004</u>	3
<u>Consolidated Statements of Operations for the Three and Six Months Ended March 31, 2005 and 2004</u>	4
<u>Consolidated Statements of Cash Flows for the Six Months Ended March 31, 2005 and 2004</u>	5
<u>Consolidated Notes to Financial Statements</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	7
Item 3. <u>Quantitative and Qualitative Disclosure of Market Risk</u>	9
PART II. <u>OTHER INFORMATION</u>	
Item 6. <u>Exhibits and Reports on Form 8-K</u>	9
<u>Signatures</u>	10

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

	March 31, 2005	September 30, 2004
Assets		
Current assets:		
Cash and cash equivalents	\$ 318,186	\$ 457,848
Accounts receivable, net	182,342	289,866
Prepaid expenses and other current assets	76,956	43,757
Total current assets	577,484	791,471
Furniture and equipment, net	34,132	52,115
Other assets	39,637	
Total assets	\$ 651,253	\$ 843,586
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 435,575	\$ 456,743
Accrued salaries and benefits	121,970	231,464
Deferred revenue	1,013,245	1,427,293
Other accrued liabilities	189,457	155,115
Current portion of capital lease obligations		203
Total current liabilities	1,760,247	2,270,818
Commitments		
Stockholders' equity:		
Common stock, \$.001 par value; 100,000,000 Shares authorized; 4,524,263 shares issued And outstanding at March 31, 2005 and September 30, 2004	2,323	2,323
Additional paid-in-capital	2,882,977	2,882,977
Accumulated deficit	(3,994,294)	(4,312,532)
Total stockholders' equity	(1,108,994)	(1,427,232)
Total liabilities and stockholders' equity	\$ 651,253	\$ 843,586

Edgar Filing: ALLIANCE HEALTHCARD INC - Form 10QSB

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,	
	2005	2004	2005	2004
Net revenues	\$ 876,940	\$ 950,756	\$ 1,775,687	\$ 1,961,921
Direct costs	320,836	288,096	634,933	725,039
Gross Profit	556,104	662,660	1,140,754	1,236,882
Marketing and sales expenses	47,925	100,968	109,764	226,902
General and administrative expenses	364,707	343,999	712,752	659,755
Operating income	143,472	217,693	318,238	350,225
Other income (expense):				
Interest, net		(5,769)		(12,613)
Net income	\$ 143,472	\$ 211,924	\$ 318,238	\$ 337,612
Per share data:				
Basic	\$ 0.03	\$ 0.05	\$ 0.07	\$ 0.08
Diluted	\$ 0.03	\$ 0.05	\$ 0.07	\$ 0.07
Basic weighted average shares outstanding	4,524,263	4,494,263	4,524,263	4,494,263
Basic weighted diluted average shares outstanding	4,650,909	4,619,337	4,617,871	4,561,197

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,	
	2005	2004
Cash flows from operating activities		
Net income	\$ 318,238	\$ 337,612
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	17,984	20,718
Change in operating assets and liabilities:		
Accounts receivable	107,524	(215,814)
Prepaid expenses and other assets	(33,199)	118,250
Other assets	(39,637)	
Accounts payable	(21,168)	(154,008)
Accrued salaries and benefits	(109,495)	23,695
Deferred revenue and other accrued liabilities	(379,706)	(537,380)
Net cash used in operating activities	(139,459)	(406,927)
Cash flows from investing activities		
Purchase of equipment		(1,698)
Net cash used in investing activities		(1,698)
Cash flows from financing activities		
Borrowings from short-term debt		282,288
Repayments of capital lease obligations	(203)	(1,748)
Net cash (used in) provided by financing activities	(203)	280,540
Net decrease in cash	(139,662)	(128,085)
Cash at beginning of period	457,848	249,831
Cash at end of period	\$ 318,186	\$ 121,746

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

Table of Contents

Alliance HealthCard, Inc.

Consolidated Notes to Financial Statements

March 31, 2005 and 2004

(Unaudited)

1. Description of the Business

Alliance HealthCard was founded in September 1998 as a limited liability company and was reorganized as a Georgia corporation in February 1999. For Florida state compliance purposes, the Company established a wholly owned subsidiary, Alliance HealthCard of Florida, Inc. in February 2005. Alliance 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. 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, 2004. Footnote disclosures, which would substantially duplicate the disclosure contained in those documents, have been omitted.

Table of Contents

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

Net revenues for the Company decreased to \$876,940 for the three months ended March 31, 2005 from \$950,756 for the three months ended March 31, 2004. The decrease is primarily attributable to a decline of revenue related to the State Farm contract due to a reduction of the annual fees for card renewals for their second and third year terms. Although State Farm's revenue decreased, our dental card program's revenue increased by 90% when compared to the same prior year quarter. The company is working closely with all of its clients to implement new marketing alternatives for their programs.

Gross profit decreased \$106,556 to \$556,104 for the three months ended March 31, 2005 from \$662,660 for the same prior year period. The decrease in gross profit is attributable to the decline of card revenue for State Farm.

Marketing and sales expenses decreased to \$47,925 for the three months ended March 31, 2005, from \$100,968 in the same prior year period. The decrease is primarily a result of: a) a reduction of royalty expense for the CVS contract related to an amendment finalized in December of 2003; b) a decline in commission expense related to the expiration of an agreement that terminated on June 30, 2004; and c) a decline in salary expense due to a change in sales personnel.

Edgar Filing: ALLIANCE HEALTHCARD INC - Form 10QSB

General and administrative expenses increased to \$364,707 for the three months ended March 31, 2005 from \$343,999 in the same prior year period. The increase is primarily a result of the addition of two new employees in account management.

Interest expense decreased \$5,769 for the three months ended March 31, 2005 due to an outstanding balance of \$0 on the Company's line of credit for the quarter ended March 31, 2005.

The Company reported net income of \$143,472 for the three months ended March 31, 2005 compared to \$211,924 for the same prior year period. As discussed above, the decrease of \$68,452 is a result of the decline in revenue for the CVS and State Farm contracts.

Table of Contents

Six Months Ended March 31, 2005 Compared to Six Months Ended March 31, 2004

Net revenues for the Company decreased \$186,234 to \$1,775,687 for the six months ended March 31, 2005. The decrease is primarily attributable to a decline of revenue related to the State Farm contract due to a reduction of the annual fees for card renewals for their second and third year terms. Although State Farm's revenue decreased, our dental card program's revenue increased to \$156,735 from \$39,845 for the prior year period. The company is working closely with all of its clients to implement new marketing alternatives for their programs.

Gross profit decreased \$96,128 to \$1,140,754 for the six months ended March 31, 2005 from \$1,236,882 for the same six-month period in the prior year. The decrease in gross profit is primarily attributable to the decline of card revenue for State Farm.

Marketing and sales expenses decreased to \$109,764 for the six months ended March 31, 2005 from \$226,902 in the same prior year. The decrease is primarily a result of: a) a reduction of royalty expense for the CVS contract related to an amendment finalized in December of 2003; b) a decline in commission expense related to the expiration of an agreement that terminated on June 30, 2004; and c) a decline in salary expense due to a change in sales personnel.

General and administrative expenses increased to \$712,752 for the six months ended March 31, 2005 from \$659,755 in the same prior year period. The increase of \$52,997 was attributable to the addition of two employees in account management.

Interest expense decreased \$12,613 for the six months ended March 31, 2005 due to an outstanding balance of \$0 on the Company's line of credit.

The Company reported net income of \$318,238 for the six months ended March 31, 2005 compared to \$337,612 for the same prior year period. The decrease was primarily attributable to the decline in revenue and offset by a decrease in marketing and sales expenses as discussed above.

Table of Contents

Liquidity and Capital Resources

The Company's operations used cash of \$139,459 for the six months ended March 31, 2005 as a result of the following: a) net income of \$318,238; b) a decrease in other liabilities of \$379,706 resulting from a decrease in deferred revenue related to the monthly revenue amortization exceeding the addition of new annual fees from the State Farm and CVS contracts; c) a decrease in accrued wages of \$109,495 related to the repayment of accrued salaries in a prior year; and d) other net changes of \$31,504.

The Company's net working capital increased \$296,584 to \$(1,182,763) for the six months ended March 31, 2005 from \$(1,479,347) at September 30, 2004. The increase in net working capital is attributable to the following: a) a decrease in current liabilities of \$510,571 primarily attributable to a decline in deferred revenue and other accrued expenses; b) a decline in current assets of \$213,987 consisting of a decline in cash of \$139,662 as discussed above plus a decline in accounts receivable of \$107,524 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, 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

Item 6. Exhibits

Edgar Filing: ALLIANCE HEALTHCARD INC - Form 10QSB

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

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.

May 11, 2005

By: /s/ Robert D. Garces

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

May 11, 2005

By: /s/ Rita McKeown

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