ALLIANCE HEALTHCARD INC
Form 10QSB
August 13, 2003
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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, 2003

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 incorporation or organization)	**(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 x No ¨

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

Class	**Outstanding at July 31, 2003**
Common Stock, $.001 par value	4,474,263

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Alliance HealthCard, Inc.

Balance Sheets

	June 30, 2003	September 30, 2002
Assets		
Current assets:		
Cash and cash equivalents	$ 896,031	$ 1,175,945
Accounts receivable, net	1,275,720	908,259
Prepaid expenses and other current assets	201,523	536,830
Total current assets	2,373,274	2,621,034
Furniture and equipment, net	21,552	38,778
Other assets		10,249
Total assets	$ 2,394,826	$ 2,670,061
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 1,971,502	$ 1,305,228
Accrued salaries and benefits	163,017	115,153
Deferred revenue	1,457,520	1,678,870
Other accrued liabilities	87,322	117,656
Notes payable	558,408	654,172
Current portion of capital lease obligations	6,658	11,193
Total current liabilities	4,244,427	3,882,272
Capital lease obligation	1,223	4,250
Commitments		
Stockholders equity:		
Common stock, $.001 par value; 100,000,000 shares authorized; 4,474,263 shares issued and outstanding at June 30, 2003 and 4,428,896 shares issued and outstanding at September 30, 2002	2,273	2,227
Additional paid-in-capital	2,848,027	2,792,907
Accumulated deficit	(4,701,124)	(4,011,595)
Total stockholders equity	(1,850,824)	(1,216,461)
Total liabilities and stockholders equity	$ 2,394,826	$ 2,670,061

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

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Alliance HealthCard, Inc.

Statements of Operations

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2003	**2002**	**2003**	**2002**
Net revenues	$ 1,151,885	$ 326,317	$ 3,252,488	$ 574,061
Direct costs	707,428	282,744	1,855,580	658,378
Gross Profit	444,457	43,573	1,396,908	(84,317)
Marketing and sales expenses	341,226	185,504	1,078,468	342,708
General and administrative expenses	354,968	355,235	1,100,372	865,935
Operating loss	(251,737)	(497,166)	(781,932)	(1,292,960)
Other income (expense):				
Other			112,750	
Interest, net	(7,107)	(8,403)	(20,347)	(17,828)
Net loss	$ (258,844)	$ (505,569)	$ (689,529)	$ (1,310,788)
Per share data:				
Basic loss	$ (0.06)	$ (0.12)	$ (0.16)	$ (0.32)
Diluted loss	$ (0.06)	$ (0.12)	$ (0.16)	$ (0.32)
Basic and diluted weighted average shares outstanding	4,469,208	4,206,877	4,447,787	4,119,936

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

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Alliance HealthCard, Inc.

Statements of Cash Flows

	Nine Months Ended June 30,	
	2003	**2002**
Cash flows from operating activities		
Net loss	$ (689,529)	$ (1,310,788)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	18,472	10,060
Change in operating assets and liabilities:		
Accounts receivable	(367,461)	(1,807,852)
Prepaid expenses and other assets	345,556	(73,200)
Accounts payable	666,274	970,771
Accrued wages	47,864	(4,085)
Deferred revenue and other accrued expenses	(251,684)	1,710,330
Net cash used in operating activities	(230,508)	(504,764)
Cash flows from investing activities		
Purchase of equipment	(1,246)	(16,414)
Net cash used in investing activities	(1,246)	(16,414)
Cash flows from financing activities		
Repayments of short-term debt	(95,764)	
Sale of stock and other issuances	55,166	438,332
Repayments of capital lease obligations	(7,562)	(7,627)
Net cash (used in) provided by financing activities	(48,160)	430,705
Net (decrease) in cash	(279,914)	(90,473)
Cash at beginning of period	1,175,945	175,631
Cash at end of period	$ 896,031	$ 85,158

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

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Alliance HealthCard, Inc.

Notes to Financial Statements

June 30, 2003 and 2002

(Unaudited)

1. Description of the Business

Alliance HealthCard, Inc. (the Company) was organized on September 30, 1998 to provide comprehensive health-care services through provider networks at discounts to patients for services not covered by their health insurance. The Company was formed as a limited liability corporation and was reorganized into a Georgia corporation in February 1999.

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, 2002. 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 in the three and nine month periods ended June 30, 2003 and 2002 because the Company s potentially dilutive securities are anti-dilutive in such periods.

3. Sale of Unregistered Securities

The Company issued an Offering Memorandum on December 15, 2000, pursuant to the exemption set forth in Regulation D, Rule 506, for the sale of 333,333 Units of its securities at a price of $4.50 per Unit, with each Unit being comprised of three shares of Common Stock, $.001 par value plus one Warrant to purchase one share of Common Stock at $1.50 per share. As of September 30, 2002, the Company had sold a total of 346,378 Units of its Common Stock at $4.50 per Unit for an aggregate amount of $1,558,703.

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

General

The Company was founded in September 1998 as a limited liability company and reorganized into a Georgia corporation in February 1999. The Company is not an insurance provider, but is a provider of an innovative membership organization that receives discounts on cash purchases of 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 other healthcare-related services and products. The Company began sales of its membership cards in November 1999.

Results of Operations

Three Months Ended June 30, 2003 Compared to Three Months Ended June 30, 2002

Net revenues for the Company increased from $326,317 for the three months ended June 30, 2002 to $1,151,885 for the three months ended June 30, 2003. The State Farm Mutual Automobile Insurance Company accounted for 58% of the increase. The increase in co-branded cards issued under the contract with CVS Pharmacy, Inc. accounted for 29% of the increase. The Ascent Management, Inc. contract accounted for 13% of the increase.

Gross profit increased $400,884 to $444,457 for the three months ended June 30, 2003 from $43,573 for the quarter ending June 30, 2002. The increase in gross profit was primarily attributable to an increase in net revenues from the CVS and State Farm contracts. This increase was partially offset by decreased gross profits from the Ascent Management contract.

Marketing and sales expenses increased to $341,226 for the three months ended June 30, 2003 from $185,504 in the same prior year period primarily due to additional CVS co-branded cards issued and the State Farm contract. The additional cards resulted in increased royalty expenses pursuant to the CVS and State Farm contracts.

General and administrative expenses slightly decreased to $354,968 for the three months ended June 30, 2003 from $355,235 in the same prior year period.

Interest expense decreased to $7,107 for the three months ended June 30, 2003 from $8,403 for the same prior year quarter due to a decrease of interest expense related to the maturities of several capital leases since June 2002.

The Company reported a net loss of $258,844 for the three months ended June 30, 2003 compared to a loss of $505,569 for the same prior year period. The decrease of $246,725 resulted from the increase in gross profits related to the CVS and State Farm contracts that were partially offset by the increase in marketing and sales as discussed above.

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Nine Months Ended June 30, 2003 Compared to Nine Months Ended June 30, 2002

Net revenues for the Company increased $2,678,427 to $3,252,488 for the nine months ended June 30, 2003. The increase in co-branded cards issued under the contract with CVS Pharmacy, Inc. accounted for 49% of the increase. The State Farm contract accounted for 43% of the increase. The contract with Ascent Management accounted for the remaining 8% of the increase.

Gross profit increased $1,481,225 to $1,396,908 for the nine months ended June 30, 2003 from a loss of $84,317 for the same nine-month period in the prior year. The increase in gross profit was primarily attributable to an increase in net revenues from the CVS and State Farm contracts offset slightly by lower gross profits from the Ascent Management contracts.

Marketing and sales expenses increased to $1,078,468 for the nine months ended June 30, 2003 from $342,708 in the same prior year period primarily due to additional CVS co-branded cards issued and the State Farm contract. The additional cards resulted in increased royalty expenses pursuant to the CVS and State Farm contracts.

General and administrative expenses increased to $1,100,372 for the nine months ended June 30, 2003 from $865,935 in the same prior year period. The increase of $234,437 was attributable to the following: (a) compensation expense of $188,403 for additional and existing personnel, and (b) an increase of $46,034 for general office expenses including rent, telephone and other office expenses associated with the additional personnel.

Other income increased $112,750 for the nine months ended June 30, 2003 as a result of compensation received from CVS Pharmacy, Inc. representing payment of expenses incurred by the Company in 2002 associated with a direct mail campaign related to the CVS Pharmacy, Inc. contract.

Interest expense, net increased to $20,347 for the nine months ended June 30, 2003, due to an increase in the principal balance on the line of credit since June 2002.

The Company reported a net loss of $689,529 for the nine months ended June 30, 2003 compared to $1,310,788 for the same prior year period. The lower net loss resulted from the increase in gross profits related to the CVS and State Farm contracts that were partially offset by the increase in marketing and sales, and general administrative expenses as discussed above.

Liquidity and Capital Resources

The Company s operations used cash of $230,508 for the nine months ended June 30, 2003 as a result of the following: a) a net loss of $689,529; b) an increase in accounts receivable of 367,461 with the CVS contract accounting for nearly the entire increase; and c) a decrease in other liabilities of $251,684 which was primarily the result of a decrease in deferred revenue of $221,350 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 decreased $609,915 to $(1,871,153) during the nine months ended June 30, 2003 from $(1,261,238) at September 30, 2002. The decrease in working capital was primarily caused by a net loss of $689,529 for the nine months ended June 30, 2003.

The Company s financing activities for the nine months ended June 30, 2003 used cash of $48,160 primarily for the repayment of a promissory note issued on September 30, 2002.

On May 22, 2003 the Company extended its credit agreement with SunTrust Bank in Atlanta, Georgia. The agreement provides the Company with a $500,000 working capital facility secured by personal guaranties from certain officers and directors of the Company who received common stock options in exchange for their guaranties. The credit agreement matured on July 31, 2003 and bears an interest rate of 5.25% per annum. The principal balance of $487,000, plus accrued interest, remains unpaid as of July 31, 2003. The Company secured a new working capital facility on July 10, 2003 with Branch Banking And Trust Company. The agreement provides the Company with a $650,000 working capital facility secured by personal guaranties from certain officers and directors of the Company who received common stock options in exchange for their guaranties. The credit agreement matures on July 9, 2004 and bears an interest rate of the bank s prime rate plus 0.9% per annum to be adjusted daily. The new working capital facility will continue to be used to provide on-going capital to fund the implementation of new contracts and general corporate operations. The Company s future liquidity and capital requirements will depend upon numerous factors, including the success of its product offerings and competing market developments. The Company intends to fund its ongoing development and operations through a combination of sales through the four existing contracts and potential new contracts. If the Company fails to successfully develop a market through the healthcare provider, institutional and retail distribution models, the Company may not be able to successfully implement its business plan to the fullest extent during the next twelve months.

The Company may be profitable in its fourth fiscal quarter of 2003 if additional new business is identified, closed and comes on stream on the planned dates and at the expected implementation costs. Alliance is still an emerging company and very sensitive to the timing of new business implementations and staying within their implementation budgets, especially accounts bringing a large number of new cardholders such as State Farm.

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 6. Exhibits and Reports on Form 8-K

(a) The Company did not file any reports on Form 8-K during the three months ended June 30, 2003.

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 13, 2003	By:	/s/ Robert D. Garces
		Robert D. Garces
		Chairman and Chief Executive Officer
		(Principal Executive Officer)

August 13, 2003	By:	/s/ Rita McKeown
		Rita McKeown
		Chief Financial Officer
		(Principal Financial and Accounting Officer)