ALLIANCE HEALTHCARD INC
Form 10QSB
August 02, 2007
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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, 2007

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	**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, 2007
Common Stock, $.001 par value	14,524,263

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Alliance HealthCard, Inc.

Consolidated Balance Sheets

	June 30, 2007	September 30, 2006
Assets		
Current assets:		
Cash and cash equivalents	$ 2,464,914	$ 1,940,178
Accounts receivable, net	2,246,620	1,563,451
Deferred tax asset	259,000	
Prepaid expenses and other current assets	16,943	
Total current assets	4,987,477	3,503,629
Notes receivable related parties	11,070	293,445
Furniture and equipment, net	124,311	100,509
Goodwill	9,669,048	455,000
Intangibles, net	12,526	8,151
Other assets	49,637	1,200
Total assets	$ 14,854,069	$ 4,361,934
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 1,898,522	$ 1,882,923
Notes payable related party	2,112,265	
Accrued salaries and benefits	49,365	
Deferred revenue	959,422	
Accrued expenses	895,104	87,742
Claims liability	122,600	90,399
Line of credit	149,980	150,000
Total current liabilities	6,187,258	2,211,064
Long term debt related party	4,018,642	
Stockholders equity:		
Common stock, $.001 par value; 100,000,000 shares authorized; 14,524,263 shares issued and outstanding at June 30, 2007 and September 30, 2006	12,343	
Additional paid-in-capital	2,407,425	
Retained earnings	2,228,401	
Members equity		2,150,870
Total stockholders equity	4,648,169	2,150,870
Total liabilities and stockholders equity	$ 14,854,069	$ 4,361,934

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

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Alliance HealthCard, Inc.

Consolidated Statements of Operations

	Three Months Ended June 30, 2007	2006	Nine Months Ended June 30, 2007	2006
Net revenues	$ 4,762,984	$ 3,592,708	$ 12,555,595	$ 10,524,337
Direct costs	2,530,967	2,558,108	7,968,834	7,200,360
Gross Profit	2,232,017	1,034,600	4,586,761	3,323,977
Marketing and sales expenses	277,955	171,178	675,471	526,115
General and administrative expenses	726,655	312,940	1,777,548	860,814
Operating income	1,227,407	550,482	2,133,742	1,937,048
Other income (expense):				
Interest income	19,592	17,633	51,748	44,149
Interest (expense)	(82,640)		(82,640)	(13)
Total other income (expense):	(63,048)	17,633	(30,892)	44,136
Income before income taxes	1,164,359	568,115	2,102,850	1,981,184
Income taxes	459,000		459,000	
Net income	$ 705,359	$ 568,115	$ 1,643,850	$ 1,981,184
Per share data:				
Basic	$ 0.05	$ 0.04	$ 0.11	$ 0.14
Diluted	$ 0.05	$ 0.04	$ 0.11	$ 0.13
Basic weighted average shares outstanding	14,524,263	14,524,263	14,524,263	14,524,263
Basic weighted diluted average shares outstanding	15,437,710	14,628,196	15,086,352	14,694,772

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

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Alliance HealthCard, Inc.

Consolidated Statements of Cash Flows

	Nine Months Ended June 30, 2007	2006
Cash flows from operating activities		
Net income	$ 1,643,850	$ 1,981,184
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred tax benefit	(259,000)	
Depreciation and amortization	41,190	37,652
Promissory note discount	60,073	
Change in operating assets and liabilities:		
Accounts receivable	(683,169)	(42,314)
Prepaid expenses and other assets	(16,943)	(93)
Notes receivable	282,375	
Deposits and other assets	(48,437)	
Accounts payable	15,599	(1,894)
Accrued salaries and benefits	49,365	
Deferred revenue	959,422	
Accrued liabilities	839,563	38,451
Net cash provided by operating activities	2,883,888	2,012,986
Cash flows from investing activities		
Purchase of equipment	(69,759)	(21,037)
Purchase of business		(562,127)
Net cash used in investing activities	(69,759)	(583,164)
Cash flows from financing activities		
Stock issued in connection with merger	(1,693,790)	
Capital distributions		(972,134)
Repayments of long term debt	(595,603)	
Net cash used in financing activities	(2,289,393)	(972,134)
Net increase in cash	524,736	457,688
Cash at beginning of period	1,940,178	1,106,418
Cash at end of period	$ 2,464,914	$ 1,564,106

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

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Alliance HealthCard, Inc.

Consolidated Notes to Financial Statements

June 30, 2007 and 2006

(Unaudited)

1. Nature 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. 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.

On February 28, 2007, Alliance HealthCard, Inc. (the Registrant) consummated the merger by and among the Registrant; AHC Benefit Marketing Acquisition, Inc., an Oklahoma corporation and a wholly-owned subsidiary of the Registrant (Merger Sub); BMS Holding Company, Inc., an Oklahoma corporation (BMS); the subsidiaries of BMS; and the stockholders of BMS (the BMS Stockholders). The Registrant previously filed a copy of the Merger Agreement as an exhibit to its Current Report on Form 8-K dated January 3, 2007. In connection with the Merger, BMS merged with and into Merger Sub, with Merger Sub continuing as the surviving entity as a wholly-owned subsidiary of the Registrant. The purchase was accounted for as a reverse merger with Alliance HealthCard as the legal acquirer and Merger Sub (BMS) as the accounting acquirer.

BMS was formed in February 2002 and is a national membership program benefits organization that designs, markets, and distributes membership programs for rental-purchase companies, financial organizations, employer groups, retailers and association-based organizations. These membership programs are sold as part of a point-of-sale transaction or through direct marketing efforts. BMS is the largest club provider in the rent-to-own (RTO) market space. The membership plans are sold through more than 4,500 locations in the U.S. and Puerto Rico.

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 for the year ended September 30, 2006 thereto included in the Company s Form 8K filed on March 6, 2007. Footnote disclosures, which would substantially duplicate the disclosure contained in those documents, have been omitted.

3. Principles of Consolidation

The financial statements presented for 2007 are inclusive of the BMS statements for the nine months ended June 30, 2007 and Alliance HealthCard for the four months ended June 30, 2007. All significant inter-company accounts and transactions have been eliminated. The merger was accounted for as a reverse merger with BMS considered to be the acquirer. Therefore, the BMS financial statements are presented for the prior-year interim periods.

4. Goodwill and Intangible Assets

The Company accounts for acquisitions of businesses in accordance with SFAS No. 141, Business Combinations (SFAS 141). Goodwill in such acquisitions represents the excess of the cost of a business acquired over the net of the amounts assigned to assets acquired, including identifiable intangible assets and liabilities assumed. SFAS 141 specifies criteria to be used in determining whether intangible assets acquired in a business combination must be recognized and reported separately from goodwill. Amounts assigned to goodwill and other identifiable intangible assets are based on independent appraisals or internal estimates.

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The Company accounts for recorded goodwill and other intangible assets in accordance with SFAS No. 142, Goodwill and Other Intangible Assets (SFAS 142). In accordance with SFAS 142, the Company does not amortize goodwill. Management evaluates goodwill for impairment for each reporting period. If considered impaired goodwill will be written down to fair value and a corresponding impairment loss recognized. The Company has recorded approximately $9,214,000 for goodwill in connection with the merger consummated on February 28, 2007.

5. Stock Options

In accordance with the provisions of the Financial Accounting Standards Board (FASB) published Statement of Financial Standards No. 123 (revised 2004) Share-Based Payment (SFAS 123R), the Company measures stock-based compensation expense as the excess of the market price on date of grant over the amount of the grant. The Company grants stock-based compensation at the market price on the date of grant.

The provisions of SFA 123R became generally accepted accounting principles on January 1, 2006. As permitted, prior to the effectiveness of SFAS 123R, the Company elected to adopt only the disclosure provisions of SFAS No. 123, Accounting for Stock-based Compensation.

6. Notes Payable

In connection with the Merger, three promissory notes (the Notes and each a Note) were made and issued by Registrant to each of Danny C. Wright, Brett Wimberley and Susan Matthews in the aggregate amount of $7,147,000. The notes have been recorded at an imputed discount rate of 5.5% for a total of $6,666,417. The Wright Note and the Wimberley Note were each in the principal amount of $2,858,800 and the Matthews Note was in the principal amount of $1,429,400. Commencing on March 1, 2007, the Notes bear interest on the unpaid principal balance at one percent (1%) per annum (the Contract Rate) with such interest payable quarterly. The principal and interest on the Notes is required to be paid in twelve equal quarterly installments, commencing on May 15, 2007, and payable on each August 14, November 14, February 14, and May 15 thereafter through February 14, 2010. However, if the Registrant s consolidated earnings before income taxes, depreciation, and amortization (Adjusted Earnings) for any of the fiscal years ending on September 30, 2007, 2008, or 2009 is less than $4.2 million, then the principal amount of the Notes will be reduced by the same percentage by which Adjusted Earnings for such fiscal year falls short of the $4.2 million amount. The reduced principal amount of the Notes will be due in equal payments due on the remaining installment payment dates. Payment of the outstanding balance of the Notes may be accelerated if any payment due thereunder is not made within five days of the due date.

7. Income Taxes

The Company recorded income tax expense of $459,000 for the quarter ended June 30, 2007. The Company utilized approximately $239,000 of net operating loss carryforwards for the income tax provision for the quarter ended June 30, 2007. As of June 30, 2007, the Company has approximately $1,750,000 of net operating loss carryforwards that may be recognized over 19 years thru 2026.

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 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. 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.

On February 28, 2007, Alliance HealthCard, Inc. (Alliance) consummated a merger (the Merger) by and among Alliance, AHC Benefit Marketing Acquisition, Inc., an Oklahoma corporation and a wholly-owned subsidiary of Alliance (Merger Sub); BMS Holding Company, Inc., an Oklahoma corporation (BMS). As a result of the Merger, BMS merged with and into Merger Sub, with Merger Sub continuing as the surviving entity as a wholly-owned subsidiary of Alliance. Although in form Alliance acquired BMS, as a result of the Merger the outstanding shares of BMS common stock were converted into 10,000,000 shares of common stock of Alliance representing approximately 69% of the total number of shares of common stock of Alliance outstanding following the Merger. Three promissory notes (the Notes and each a Note) were made and issued by Registrant to each of Danny C. Wright, Brett Wimberley and Susan Matthews in the aggregate amount of $7,147,000. The notes have been recorded at an imputed discount rate of 5.5% for a total of $6,666,417. The Wright Note and the Wimberley Note were each in the principal amount of $2,858,800 and the Matthews Note was in the principal amount of $1,429,400. Commencing on March 1, 2007, the Notes bear interest on the unpaid principal balance at one percent (1%) per annum (the Contract Rate) with such interest payable quarterly. The principal and interest on the Notes is required to be paid in twelve equal quarterly installments, commencing on May 15, 2007, and payable on each August 14, November 14, February 14, and May 15 thereafter through February 14, 2010. However, if the Registrant s consolidated earnings before income taxes, depreciation, and amortization (Adjusted Earnings) for any of the fiscal years ending on September 30, 2007, 2008, or 2009 is less than $4.2 million, then the principal amount of the Notes will be reduced by the same percentage by which Adjusted Earnings for such fiscal year falls short of the $4.2 million amount. The reduced principal amount of the Notes will be due in equal payments due on the remaining installment payment dates. Payment of the outstanding balance of the Notes may be accelerated if any payment due thereunder is not made within five days of the due date. Accordingly, for accounting and financial statement purposes the Merger is being treated as an acquisition of Alliance by BMS under the purchase method of accounting. The assets and liabilities of Alliance as of the date of the Merger were recorded at their fair values and added to those of BMS, including approximately $9,214,000 for goodwill representing the difference between the deemed purchase price of Alliance and the fair value of identifiable net assets. Financial statements of the combined companies (referred to herein as the **Registrant**) issued after the Merger will be the historical statements of BMS, with inclusion of the operations of Alliance only in the periods subsequent to the Merger. BMS financial statements will not be restated retroactively to reflect the historical financial position or results of operations of Alliance for periods prior to the Merger. Although the historical statements are those of BMS, the Registrant will use Alliance s fiscal year which ends September 30.

BMS was formed in February 2002 and is a national membership program benefits organization that designs, markets, and distributes membership programs for rental-purchase companies, financial organizations, employer groups, retailers and association-based organizations. These membership programs are sold as part of a point-of-sale transaction or through direct marketing efforts. BMS is the largest club provider in the rent-to-own (RTO) market space. The membership plans are sold through more than 4,500 locations in the U.S. and Puerto Rico.

Three Months Ended June 30, 2007, Compared to Three Months Ended June 30, 2006

Revenue increased $1.2 million, or 33%, to $4.8 million in the quarter ended June 30, 2007 compared to revenue of $3.6 million in the same period in 2006. The $1.2 million increase in revenue consisted of an increase in revenues for BMS of $436,090 attributable to the following: a) $214,431 from a major client due to an increase in membership sales; b) $117,336 from a company acquired in December of 2005, and c) $104,323 from new and existing client business. The remaining increase of $734,186 was attributable to Alliance HealthCard.

Gross profit increased $1.2 million, or 116%, to $2.2 million in the quarter ended June 30, 2007 compared to $1.0 million in the same period in 2006. The increase is due to additional revenue plus a major reduction in direct costs for BMS as a result of converting the majority of its membership service and fulfillment function to Alliance HealthCard in April, 2007. These services had been outsourced in the past.

Sales and marketing expenses increased $106,778, or 62%, to $277,955 in the quarter ended June 30, 2007, compared to $171,178 in the same period in 2006. Sales and marketing expenses as a percentage of revenue was 5.8% and 4.8% for the quarters ended June 30, 2007 and 2006 respectively. The increase consisted of $58,899 for BMS due to compensation and sales incentives for $38,077, printing for $12,987 and other changes of $7,835. Sales and marketing expenses for Alliance HealthCard was $47,879.

General and administrative expenses increased $413,715, or 132%, to $726,655 in the quarter ended June 30, 2007 compared to $312,940 in the same period in 2006. General and administrative expenses as a percentage of revenue were 15.3% and 8.7% in the quarters ended June 30, 2007 and 2006, respectively. The increase of $413,715 was primarily attributable to Alliance HealthCard of $320,140. The remaining increase of $93,575 was related to BMS with an increase for compensation expense of $83,708 and other increases of $9,867 for travel, rent and professional fees.

Other income (expense) increased to ($63,047) in the quarter ended June 30, 2007 compared to interest income of $17,633 in the same period in 2006. The increase of ($80,680) was related to the interest expense for the promissory notes issued in connection with the Merger.

Nine Months Ended June 30, 2007 Compared to Nine Months Ended June 30, 2006

Revenue increased $2.1 million, or 19%, to $12.6 million for the nine months ended June 30, 2007 compared to revenue of $10.5 million for the nine months ended June 30, 2006. The $2.1 million increase in revenue consisted of an increase in revenues for BMS of $1,047,778 consisting of the following: a) $862,566 for one major customer and $211,395 from net growth for new and existing clients; b) $409,590 related to an acquisition in December, 2005; c) a decrease in other revenues of $435,773 for the company s third party administrator services. Alliance HealthCard was responsible for the remaining increase of $983,480.

Gross profit increased $1.3 million, or 38%, to $4.6 million for the nine months ended June 30, 2007 compared to $3.3 million for the nine months ended June 30, 2006. Gross profit as a percentage of revenue increased to 37% for the nine months ended June 30, 2007 compared to 32% in the same period in 2006. The increase of $1.3 million was attributable to additional revenue plus a major reduction in direct costs for BMS as a result of converting the majority of its membership service and fulfillment function to Alliance HealthCard in April, 2007. These services had been outsourced in the past.

Sales and marketing expenses increased $149,356, or 28%, to $675,471 for the nine months ended June 30, 2007, compared to $526,115 for the nine months ended June 30, 2006. Sales and marketing expenses as a percentage of revenue was 5.4% and 5.0% for the nine months ended June 30, 2007 and 2006, respectively. The increase of $149,356 consisted of $91,064 for BMS and $58,292 for Alliance HealthCard. The BMS increase was attributable to compensation and commission expense of $87,226, travel of $34,342 and printing of $12,987 that was offset by a decrease in advertising expense of $42,288 for brochures and magazine ad expense in 2006.

General and administrative expenses increased $916,735, or 106%, to $1,777,548 for the nine months ended June 30, 2007 compared to $860,814 for the nine months ended June 30, 2006. General and administrative expenses as a percentage of revenue were 14.2% and 8.2% for the nine months ended June 30, 2007 and 2006, respectively. The increase of $916,735 consisted of $501,642 for BMS and $415,093 for Alliance HealthCard. The BMS increase of $501,642 was for compensation expense of $396,782 for additional personnel and increases in compensation, professional fees of $63,814 for accounting and legal fees, and other expenses of $41,046.

Other income (expense) increased to ($30,892) for the nine months ended June 30, 2007 compared to interest income of $44,135 for the nine months ended June 30, 2006. The increase of ($75,028) was attributable to the interest expense for the promissory notes issued in connection with the merger.

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Liquidity and Capital Resources

As of June 30, 2007, the Company had cash of $2,464,914 and working capital of ($1,199,781). Cash provided by operating activities was $2,883,888 for the nine months ended June 30, 2007 and $2,012,986 for the nine months ended June 30, 2006. The increase of $870,902 was primarily attributable to the Merger.

Cash used in investing activities was $69,759 for the nine months ended June 30, 2007 compared to $583,164 for the nine months ended June 30, 2006. The decrease of $513,405 was primarily a result of a business purchased by BMS in December, 2005.

Cash flows used in financing activities was $2,289,393 for the nine months ended June 30, 2007 compared to $972,134 for the nine months ended June 30, 2006. The increase of $1,317,259 was attributable to the Merger and the repayment of the promissory notes issued in conjunction with the Merger.

The Company anticipates that cash on hand, together with cash flow from operations should be sufficient for the next twelve months to finance operations, make capital investments in the ordinary course of business, and pay indebtedness when due.

ITEM 3A (T). 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 third fiscal quarter of 2007 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.	
August 1, 2007	By:	/s/ Danny Wright Chief Executive Officer (Principal Executive Officer)
August 1, 2007	By:	/s/ Rita McKeown Rita McKeown Chief Financial Officer (Principal Financial and Accounting Officer)