

ALLIANCE HEALTHCARD INC

Form 10KSB

December 22, 2004

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-KSB

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended September 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)

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

Securities registered pursuant to Section 12 (b) of the Act: None

Securities to be registered pursuant to Section 12 (g) of the Act:

Common Stock, \$.001 Par Value

(Title of Class)

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-B is not contained herein, and will not be contained to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Parts III of this Form 10-KSB or any amendment to this Form 10-KSB.

Registrant's revenues for the fiscal year ended September 30, 2004 were \$3,947,344.

Aggregate market value of the voting and non-voting Common Stock held by non-affiliates of the Registrant, computed using the last sale price as reported for the Registrant's common stock on December 3, 2004 was \$4,524,263.

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

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| <u>Class</u> | <u>Outstanding at December 3, 2004</u> |
|--------------------------------|--|
| Common Stock, \$.001 par value | 4,524,263 |

Transitional Small Business Disclosure Format (Check One): Yes No

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ITEM 1. BUSINESS

Certain statements contained in this filing are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, such as statements relating to financial results and plans for future business development 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. Potential risks and uncertainties include, but are not limited to, economic conditions, competition and other uncertainties detailed from time to time in the Company's filings with the Securities and Exchange Commission.

GENERAL

Alliance HealthCard, Inc. (hereinafter referred to as Alliance or the Company) 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. Alliance HealthCard offers third-party organizations self-branded or private-label healthcare savings programs through its existing provider networks and systems. Founded in 1998 by health-care and finance experts to address the need for affordable health care nationwide, Alliance HealthCard now accesses a network of more than 600,000 healthcare professionals. These programs allow the Company's subscribers to obtain substantial discounts in over 16 major healthcare services.

The Company does not sell insured plans. However, the discounts realized by its members through its programs typically range from 10% to 75% off providers' usual and customary fees. The Company's programs require members to pay the provider at the time of service, thereby eliminating the need for any insurance claims filing. These discounts, which are similar to managed care discounts, typically save the individual more than the cost of the program itself.

PRODUCTS

Based on the target market, Alliance offers several different healthcare benefit card programs that provide benefits that range from prescription drug discounts only to the physician benefit categories available through its Platinum Card program. The Company offers its Gold and Platinum Cards directly or co-brands them with its customers. It also offers its clients cards with custom-designed benefit packages.

Gold Card

The Gold Card generally presumes the member has some level of basic medical insurance coverage. It offers services that are typically not covered under a traditional health insurance plan or an insurance plan that may have certain coverage limits. The Gold Card provides individuals and families national access to over 465,000 healthcare providers. This program typically is marketed as add-on services alongside an existing health plan or as a stand-alone plan for those who have health insurance but with minimal benefits for prescription or other ancillary services. The benefit categories of the Gold Card are:

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| | | |
|--------------------|----------------------|----------------------------|
| Pharmacy | Chiropractic | Medical Supplies |
| Vision | Alternative Medicine | Medical Lab Services |
| Dental | Long-Term Care | Podiatry |
| Hearing | Mental Health | Emergency Medical Response |
| 24-hour nurse line | Physical Therapy | |

Platinum Card

For individuals who generally do not have an insurance plan, Alliance offers the Platinum Card product. This product includes all of the benefit categories of the Gold Card plus primary care physicians, specialists, hospitals and outpatient facilities. The Platinum Card targets those with little or no insurance, or those with just catastrophic coverage. The Platinum Card gives members access to all of the Gold Card services listed above, plus additional access to several thousand hospitals and over 300,000 physicians in specialties such as:

| | | |
|-----------------|---------------|------------|
| Family Practice | Internists | OB/GYN |
| Orthopedics | Pediatricians | Cardiology |
| Radiology | Ophthalmology | Urology |
| ENT | Neurology | Surgery |

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Alliance Dental Plans Card

This specialized plan offers dental and pharmacy benefits, with access to either of two highly recognized networks in the dental industry: CIGNA and United Health/DBP. Discounts typically range from 10 to 75 percent.

Alliance 10/20 Rx Plan Card

This generic-driven prescription plan features a four-tier pricing matrix that allows members, working with their physician, to identify alternative drugs when a more costly drug is prescribed. The plan comprises more than 1,500 prescription drugs and offers 97 percent of the country's top-100 prescribed drugs and their generic equivalent at \$10 and \$20 price levels. A third tier at \$40 or less encompasses more-expensive generics and brand-name drugs, and a fourth covers the remaining branded medications at an average savings of 24%. CVS, Medicine Shoppe and Wal-Mart are among the 50,000 large chain and independent pharmacies that participate.

NETWORKS AND SERVICES

Alliance HealthCard contracts with preferred provider organizations and other medical networks for access to their negotiated rates. The Company does not contract directly with any medical providers. Alliance will only select and utilize those networks that we believe can deliver savings to our members, while providing support for our program with the healthcare providers. Alliance offers its members 16 healthcare provider services nationwide. Provider services are typically discounted an average of 30% off retail or usual and customary charges with discounts ranging from 10% to 75%. Depending upon the membership level selected, cardholders can access up to 465,000 providers. The Company is a leader in providing one of the most varied and unique blends of healthcare savings programs in the industry. We pay each network utilized, per member per month amount for use of the network. These fees range from \$0.02 to \$4.00 per member per month. The contracts guarantee access and discounts off the networks' usual and customary fee schedules. Each network is only paid for those members authorized to utilize the network.

| | |
|-------------------------------|--|
| Providers | 150,000 professionals (Gold Card Members) 400,000 specialists and primary care physicians (Platinum Card Members) |
| Facilities | 5,000 hospitals 75,000 ancillary facilities including, but not limited to, laboratories and radiology clinics |
| Dental, Orthodontics | 58,000 CIGNA dentists 50,000 DBP/United Health dentists |
| Vision | 20,000 vision care professionals |
| Pharmacy | 55,000 national and regional chain pharmacies including CVS, Wal-Mart, Kroger among many others |
| Chiropractic & CAM | 14,000 chiropractors, acupuncturist, massage therapists, health clubs |
| Behavioral Counseling | 20,000 mental health-care professionals |
| 24-Hour Nurse Line | 24 hours, seven days a week |
| Link-to-Life | 20% discount on personal emergency equipment, installation and monitoring services |
| Physical Therapy | 1,000 physical therapy and rehabilitation facilities |
| Diabetes Supplies | 15 percent discount |

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|--------------------------|--|
| Advocacy Programs | Senior advocacy for families of seniors that are investigating nursing homes, hospice facilities, retirement communities, counseling, and long-term care needs; and patient advocacy for financially burdened members. |
| Travel Assistance | Services ranging from physician referrals to medical evacuations worldwide. |

MEMBER SERVICES

The Company believes that providing high quality customer service to its members is extremely important in order to encourage memberships and to strengthen the affinity of those members for the client that offered the service program. Currently, the Company maintains a call center in Atlanta, Georgia. The Company's service center is available to members and may be accessed via email or toll free numbers, Monday through Friday from 8:00 a.m. to 8:00 p.m. eastern time. In order to achieve our anticipated growth and to ensure client, member and marketing representative loyalty, we continue to develop and invest significantly in our member service systems. Alliance developed a proprietary computer database system that provide member service representatives immediate access to provider demographic data, and member information, including the components of each member program or plan and the details a member requires to properly utilize the program. All new member service representatives are required to complete a training course before beginning to take calls and attend on-the-job training thereafter. Through its training programs, systems and software, the Company seeks to provide members with friendly, rapid and effective answers to questions. The Company continues to work closely with its clients' customer service staffs to ensure that their representatives are knowledgeable in matters relating to membership service programs offered by the Company.

INDUSTRY OVERVIEW

Alliance provides healthcare solutions for individuals and families who are insured, underinsured (limited benefit insurance plans), and uninsured. It is estimated that 43.6 million individuals, were without health insurance coverage in 2002, up from 14.6% in 2001, an increase of 2.4 million people Source: U.S. Census Bureau Statistics published by the U.S. Department of Commerce.]. The individual or family who benefits from membership in Alliance's healthcare networks generally has a gap in healthcare benefits because of a lack of sufficient insurance coverage due to cost or product availability. It has been estimated that 74.7 million people under the age of 65 were without health insurance for part or all of 2001 and 2002, approximately one in three Americans. [Source: Going Without Health Insurance published by the Robert Wood Johnson Foundation.] The market is not limited to self-paying healthcare consumers; it includes employers, insurers and other affinity groups that offer Alliance membership services. Some members purchase an Alliance product to gain access to a specific product or service not covered by a health plan. Examples of the products and services not covered by certain plans would be alternative medicine, dental services, vision care or prescription drugs.

MEMBERSHIP SERVICE PROGRAM INDUSTRY

Membership service programs offer selected products and services from a variety of vendors with the objective of enhancing the existing relationship between businesses and their customers. When designed, marketed, and managed effectively, membership service programs can be of significant value to:

Consumers, who become members of the membership program;

Vendors, through sales and marketing of their products and services; and

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Wholesale clients, through which the program memberships are offered or sold in connection with other benefits or sales

Product vendors and service providers are seeking more cost-effective and efficient methods to expand their customer base and market share, other than through the traditional mass-marketing channels of distribution. In addition, vendors are seeking to reach new customers and strengthen relationships with existing customers.

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Alliance HealthCard designs and offers healthcare membership programs for employer groups, retailers and association-based organizations. Membership in these programs are offered and sold by direct sales or through independent marketing consultants. We believe that our clients, their members, and the vendors of the products and services offered through the programs, all benefit from our membership service programs. The products and services are bundled, priced and marketed utilizing relationship marketing strategies to target the profiled needs of the clients particular member base.

HISTORY OF THE COMPANY

The Company was founded in September 1998 as a limited liability company and was reorganized as a Georgia corporation in February 1999. The Company 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 10 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.

On September 30, 1999, we completed the sale of 1,079,400 shares of our common stock at a purchase price of \$0.83 per share for total proceeds before expenses of \$899,500. These securities were issued pursuant to Rule 504 of Regulation D promulgated pursuant to the Securities Act.

After completing the private stock offering in September 1999, the Company registered its securities with the Securities and Exchange Commission on March 10, 2000 and received approval from the NASD on November 29, 2000 to begin trading its Common Stock under the trading symbol of ALHC on the Over The Counter Bulletin Board. The Company's board of directors also approved a three for one stock split effective November 1, 2000.

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 securities at \$4.50 per Unit with aggregate proceeds equaling \$1,558,703 from such sales. The Company issued 1,039,134 shares of Common Stock to 65 investors in a private placement exempt from registration under Section 4(2) of the Securities Act and Rule 506 of Regulation D as promulgated thereunder.

BUSINESS STRATEGY

Our objective is to sustain and expand our leadership position as a provider of unique healthcare membership service programs. The Company intends to focus predominantly in underserved markets where individuals either have limited healthcare benefits, or no insurance. The Company has developed programs that give individuals access to healthcare providers at reduced fees, and offers value and savings to healthcare consumers throughout the country. Through product design, competitive membership pricing and strong distribution channel partners, Alliance plans to fill a significant void in the healthcare market that insurance plans have not addressed.

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The Company's primary target markets consist of: 1) the Medicare population without supplemental coverage 2) individuals with limited benefit insurance plans, and 3) uninsured individuals. Each of these markets has unique characteristics and, therefore, specific means of distribution. Alliance provides a wide degree of flexibility to its distribution partners in both product design and network services.

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Alliance HealthCard utilizes three methods to reach the end consumer and offer its memberships on an individual and family basis:

Indirect, Leveraged Sales Channels

Alliance provides networks, systems and services to third-party organizations that in turn provide or sell them to their constituencies in a co-branded program. (See contracts.)

Alliance's private-label program, like the CVS Health Savings Plan and Health Savings Plus Plan, equip organizations with an added-value service that further positions them as a resource for wide-ranging health care. Organizations like CVS utilize their own systems to generate membership sales, and typically earn a marketing fee for each membership. The customized sales model is ideal for large pharmacy chains, as well as trade groups and healthcare provider organizations.

Private-Labeled /Affinity Model

For organizations with a large number of members who may not have traditional health care coverage, Alliance provides a way to increase their membership value and strengthen organizational ties.

Our current affinity program designed for State Farm Insurance illustrates the role Alliance takes in filling a group's unmet health-care need or focus. It provides State Farm policyholders that qualify for Medicare with Alliance's ancillary health benefits like prescription, dental and alternative medicine. Depending on the need of an organization, Alliance's affinity program benefits could range from Platinum Card-level services to prescription only. Typically, commercial or government programs do not include ancillary benefits.

The Company's private-label affinity model is also ideal for groups with high-deductible plans, where benefit managers embed an Alliance program to ease members' early, out-of-pocket expenses. Individuals that participate in high-deductible health care plans are eligible for tax-preferred Health Savings Accounts (HSA), a relatively new and increasingly popular benefit option. Because HSAs are portable, the combination of a high-deductible plan, HSA and Alliance HealthCard could mean life-long savings for consumers.

Direct Sales Model

The Gold and Platinum Cards are Alliance's principal consumer-oriented products and represent the Company's retail distribution model. Alliance's commission-sharing arrangement with agents, brokers and employee benefit consultants enables them to market and distribute the cards to individual consumers through large employer groups, insurance brokers, and associations. Individual purchases of the cards outside the realm of commission programs represent a small percentage of the mix and currently result from word of mouth and recent direct mail campaigns.

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Our healthcare provider model features both branded and co-branded Gold and Platinum Cards. Insurance companies either sell or issue the cards as a value-added benefit to their policyholders. Currently, the majority of the cards are Alliance-brand memberships purchased by insurance companies for specific policyholder groups. The Company believes that this institutional distribution model may offer the greatest near-term growth opportunities for its card base.

In an industry that takes a "one size fits all" approach to program design, The Company believes it stands alone in its commitment to flexibility in product design, systems and operations for a range of distribution models. This accommodating and adaptable approach to meeting clients' needs should contribute directly to the success of Alliance's business strategy.

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SALES AND MARKETING

Historically, Alliance has generated sales leads from health-care contacts linked to our executive officers, referrals from our board of directors, and the efforts of sales professionals. The Company currently employs three full-time sales professionals and retains a number of independent sales consultants, who are compensated solely on the basis of actual sales closed.

In 2004, we initiated sales and marketing programs to expand our visibility in the industry and to increase the pool of sales leads. Initiatives now underway include targeted public relations, sales support activities, direct mailings and industry meetings.

Beginning January 2005, we will retain three additional independent commission-based consultants to launch the following distinct sales campaigns respectively:

The Un-banked Market

To reach low-income, un-banked workers who have limited or no insurance benefits, Alliance will sell its Pharmacy, Gold and Platinum Cards at check cashing companies nationwide. This sector of the finance service industry has an established infrastructure that reaches low-income communities and effectively markets products to them. Check cashing companies, like ACE Cash Express and Dollar Financial Group, operate outside of the arena of mainstream banking and offer the types of financial services that match the spending and saving behaviors of low-income workers.

Alliance's independent consultant will provide check-cashing companies with point-of-purchase displays similar to those used to sell phone cards at convenience stores and grocers. Companies will sell 90-day term prescription cards that are activated immediately at the point of sale. Members who wish to upgrade their cards to a Gold or Platinum membership level will call an 800-number listed on the back of the card.

Physician-Issued Pharmacy Cards

Beginning 2005, Alliance will offer physicians the opportunity to issue free pharmacy benefit cards to their uninsured patients who leave the office with a prescription. Initially, we will target offices and clinics that only serve a largely Hispanic population. Alliance will earn rebate income from pharmacies visited by the new cardholders and have the opportunity to upgrade prescription cards to Gold or Platinum levels by calling an 800-number listed on the back of the card. To handle the upgrade process, Alliance will augment its call center in Atlanta and adjust its automated telephone system. A pilot program will begin in the Atlanta area and will expand to other high-density Hispanic populations thereafter.

Employer Benefits Programs

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Alliance's outbound sales call efforts will intensify with a dedicated employee focusing on companies that have 500 or more employees and a significant workforce of non-benefit part-time employees. Initially, Alliance will target service industry companies with non-union workers primarily in the retail and food industry sectors. The Company will sell Gold, Platinum, and Co-branded Card group programs, where membership fees that may be evenly split between the employer and individual and secured in part by payroll deduction. Revenue will result from group membership payments and pharmacy rebate transactions.

CUSTOMERS

The Company executed seven new contracts during the fiscal year ended September 30, 2004. In addition to the new contracts for 2004, contracts are still in force for the following customers: a) CVS Pharmacy, Inc., a major retail chain consisting of over 5,000 locations that are selling the cards at their pharmacy counters to certain individuals who lack pharmacy and other health benefits; b) State Farm Mutual Automobile Insurance Company's whose Good Neighbor Advantage card gives its policyholders discounts on eight major services, and c) Melaleuca, Inc., an international manufacturer and marketer of unique home, health and personal care products, who sell a version of the Company's Gold Card to their customers.

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Two of our customers contributed 79% of the Company's revenue for 2004. There is no certainty that any of the abovementioned contracts will not cancel after the initial term. There can be no assurances that the Company could replace these revenues when the agreements expire or if one or both are terminated prior to expiration. Accordingly, termination or expiration of these relationships would substantially reduce the Company's revenues and profits, and, thus, have a material adverse effect on the Company's business, financial performance and operations.

COMPETITION

There are several companies that compete with the Company. The Company's principal competitors are Care Entrée, Best Discount Benefits, and New Benefits. Our other competitors include large retailers, financial institutions, insurance companies, preferred provider organization networks, and other organizations, which offer benefit programs to their customers. Many of our competitors have substantially larger customer bases and greater financial and other resources.

The environment within which we operate is intensely competitive and subject to rapid change. To maintain or increase our market share position, we must continually enhance our current product offerings, introduce new product features and enhancements, and expand our client service capabilities. We currently compete principally on the basis of the specialized nature of our products and services.

GOVERNMENT REGULATION

The Company does not sell or market insurance products, and, thus, believes that its business is not subject to material regulation under the insurance laws of the United States or any of the states in which it offers or plans to offer services. Licensing laws and regulations often differ materially among states and within individual states such laws and regulations are subject to amendment and reinterpretation by the agencies charged with their enforcement. If the Company becomes subject to any licensing or regulatory requirements, the failure to comply with any such requirements could lead to a revocation, suspension or loss of licensing status, termination of contracts and legal and administrative enforcement actions. In addition, the use of the Internet in the marketing and distribution of the Company's services is relatively new and presents issues, such as the limitations on an insurance regulator's jurisdiction and whether Internet service providers, gateways or cybermalls are (a) engaged in the solicitation or sale of insurance policies or (b) otherwise transacting business requiring licensure under the laws of one or more states. Accordingly, the insurance laws and regulations and interpretations thereof are subject to uncertainty and change. The Company cannot be sure that a review of its current and proposed operations will not result in a determination that could materially and adversely affect its business, results of operations and financial condition. Moreover, regulatory requirements are subject to change from time to time and may in the future become more restrictive, thereby making compliance more difficult or expensive or otherwise affecting or restricting the Company's ability to conduct its business as now conducted or proposed to be conducted.

EMPLOYEES

As of November 30, 2004, the Company employed 16 individuals on a full-time basis and 1 on a part-time basis. None of the Company's employees are represented by a labor union. The Company believes that its employee relations are good.

ITEM 2. PROPERTIES

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The Company leases the space for its office in Norcross, Georgia under a lease that expires in April 2009. The lease is in the name of Alliance Healthcard, Inc. and NovaNet, Inc., a company partially owned by Robert D. Garces, the Chairman of the Board of the Company. The total space consists of approximately 6,900 square feet and NovaNet leases approximately 1,725 square feet of that space. The lease was executed on May 1, 2004 and terminates on April 30, 2009 at approximately \$10,494 per month thru October 31, 2005 and periodic increases thereafter. The Company believes that it has adequate office space for its current operations.

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On October 20, 2003, Medco Health Solutions, Inc. made a written demand for payment from Alliance HealthCard, Inc., in the amount of \$486,269. The demand was based on allegations that Alliance was liable for these amounts based on an Integrated Prescription Drug Program Master Agreement dated July 1, 2000 (the Agreement). Thereafter, 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 Company believes this case has a good likelihood of success, but cannot be determined with any certainty. The Defendant can still prevail under a motion for summary judgment or at trial.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company did not submit any matters to a vote of security holders during the year ended September 30, 2004. The Company will hold its next annual meeting during the Company's second fiscal quarter ending March 31, 2005

PART II.**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS**

Alliance's Common Stock began trading on the Over The Counter Bulletin Board in January 2001. As of November 17, 2004 there were 144 holders of record of Alliance Common Stock. The table below sets forth for the periods indicated the high and low price per share (using the closing average of best bid and best ask price) of Alliance Common Stock as reported on the Over The Counter Bulletin Board for the periods indicated. These quotations also reflect inter-dealer prices without retail mark-ups, mark-downs or commissions, and may not necessarily represent actual transactions.

| | Price Per Common Share | |
|---|------------------------|---------|
| | High | Low |
| Year Ended September 30, 2004 | | |
| First Quarter ended December 31, 2003 | \$ 0.52 | \$ 0.28 |
| Second Quarter ended March 31, 2004 | \$ 1.35 | \$ 0.28 |
| Third Quarter ended June 30, 2004 | \$ 1.30 | \$ 0.60 |
| Fourth Quarter ended September 30, 2004 | \$ 1.24 | \$ 0.60 |
| Year ended September 30, 2003 | | |
| First Quarter ended December 31, 2002 | \$ 2.50 | \$ 1.05 |
| Second Quarter ended March 31, 2003 | \$ 2.15 | \$ 0.75 |

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| Third Quarter ended June 30, 2003 | \$ 1.50 | \$ 1.01 |
| Fourth Quarter ended September 30, 2003 | \$ 1.20 | \$ 0.34 |

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DIVIDEND POLICY

The Company declared a three-for-one stock dividend to shareholders of record as of November 1, 2000. However, the Company has never paid cash dividends or made other cash distributions to Common Stock shareholders, and does not expect to declare or pay any cash dividends in the foreseeable future. The Company intends to retain future earnings, if any, for working capital and to finance current operations and expansion of its business. Payments of dividends in the future will depend upon the Company's growth, profitability, financial condition and other factors the Company's Board of Directors may deem relevant.

RECENT SALE OF UNREGISTERED SECURITIES

On September 30, 1999, we completed the sale of 1,079,400 shares of our common stock at a purchase price of \$0.83 per share for total proceeds before expenses of \$899,500. These securities were issued pursuant to Rule 504 of Regulation D promulgated pursuant to the Securities Act.

From December 2000 through September 2002, we completed the sale of 346,378 units each consisting of three shares of common stock and one common stock purchase warrant at purchase prices of \$4.50 for total proceeds before expenses of \$1,558,703. Each warrant entitles the holder to purchase one share of Common Stock at an exercise price of \$1.50 per share. These securities were issued as restricted stock to 65 investors in a private placement exempt from registration under Section 4(2) of the Securities Act and Rule 506 of Regulation D as promulgated there under.

On September 25, 2002, we completed the sale of 1,039,134 shares of our common stock at a purchase price of \$1.50 per share for total proceeds before expenses of \$1,558,703. These securities have been issued as restricted stock to 65 investors in a private placement exempt from registration under Section 4(2) of the Securities Act and Rule 506 of Regulation D as promulgated there under.

During 2004, the Board of Directors approved stock option awards for an aggregate of 483,994 shares under the 1999 Stock Option Plan. These [incentive][non-qualified] stock option awards were awarded to 20 of our current employees and directors and have exercise prices equal to the fair market value of our common stock on the date of the grant.

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ITEM 6. 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 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. The Company began sales of its membership cards in November 1999. The Company has financed its operations to date through the sale of its securities and a line of credit obtained in May 2000 and in July 2004. See Liquidity and Capital Resources.

Results of Operations

Year Ended September 30, 2004 Compared to Year Ended September 30, 2003

Net revenues for the company decreased \$453,136 to \$3,947,344 for the year ending September 30, 2004 from \$4,400,480 for the same prior year period. The net decrease of \$453,136 was attributable to: (a) an increase of revenue of \$740,518 resulting from the Melaleuca contract signed in August of 2003, an Advance PCS contract signed in August of 2003 and three dental program contracts signed during the year ended 2004; (b) a decrease of revenue of \$1,193,654 primarily related to a decline in membership cards related to the CVS contract and the termination of the Ascent contract in December of 2003.

Gross profit increased \$857,048 to \$2,595,130 for the year ended 2004 from \$1,738,082 for the same prior year. The increase in gross profit was primarily attributable to a reduction of network expense due to a change in three of the Company's provider networks. The change in provider networks resulted in a decrease of network expense of \$694,175 for the year ended September 30, 2004 and simultaneously increased the number of providers available to card members. In addition to a change in networks, there was also a decrease of implementation expense of \$309,243 for the State Farm and Ascent contracts. 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. The remaining change of \$(146,370) in gross profit is related to a decrease in revenue from the CVS contract and an increase of other direct expenses related to the Melaleuca and the new dental program contracts that started in 2004.

Marketing and sales expenses decreased \$1,042,533 to \$336,378 for the year ending September 30, 2004 from \$1,378,911 for the year ending September 30, 2003. The decrease is due to a reduction of royalty expense resulting from an amendment to the CVS Pharmacy, Inc. contract with an effective date of April 1, 2003.

General and administrative expenses increased \$84,027 to \$1,535,368 for the year ending September 30, 2004 from \$1,451,341 in the prior year. The increase is primarily attributable to: (a) an increase of \$122,391 in bad debt expense for allowance for doubtful accounts; (b) an increase in compensation and consulting expense of approximately \$58,978 for additional personnel; (c) an increase in legal and accounting fees of \$28,715; (d) a decrease of \$126,057 in general office expense related to travel, rent, phone and other general expenses.

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Other income decreased \$112,750 for the year ending September 30, 2004 as a result of compensation received from CVS Pharmacy, Inc. for the year ended September 30, 2003, representing payment of expenses incurred by the Company in 2002 associated with a direct mail campaign related to the CVS contract. Interest expense decreased \$7,877 for the year ending September 30, 2004 to \$18,512 as a result of a lower average outstanding principal balance on the Company's line of credit for October 2003 through July 2004.

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The Company reported net income of \$704,872 in 2004 compared to a net loss of \$1,005,809 for the prior year. The increase in net income is principally a result of the decline in the Company's network, fulfillment and royalty expenses as discussed above.

OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements.

LIQUIDITY AND CAPITAL RESOURCES

The Company's operations provided cash of \$399,901 for the year ended September 30, 2004 primarily as a result of the following: (a) net income of \$704,872; (b) other adjustments to reconcile net income to net cash of \$69,480 consisting of depreciation and stock issued in connection with employment services; (c) a decrease in prepaid expenses and other assets of \$121,264 related to a change in the Company's dental provider network; (d) a decrease in accounts receivable of \$1,218,760 offset by a decrease in accounts payable of \$1,293,216, primarily a result of the CVS contract; (e) a decrease in accrued wages and liabilities of \$421,259 primarily attributable to a decrease in deferred revenue related to the CVS and State Farm contracts.

The Company's net working capital increased \$773,541 to \$(1,479,347) during the 12 months ended September 30, 2004 from \$(2,252,888) at September 30, 2003. The increase in working capital was attributable to the following: (a) an increase in cash of \$208,017 partially due to the Company's net income; (b) a decrease in accounts receivable of \$1,218,760 primarily attributable to the CVS contract (c) a decrease in prepaid expenses and other assets of \$111,015 related to a change in the Company's dental provider network; (d) a decrease in accounts payable of \$1,293,216 primarily related to the CVS contract; (e) a decrease in deferred revenue and other liabilities of \$421,259 primarily attributable to the CVS and State Farm contracts; (f) a decrease in notes payable and capital lease obligations of \$180,824 primarily attributable to the Company's line of credit being paid in full in August 2004.

The Company's investing activities during the year ended September 30, 2004 used cash of \$10,886 for capital expenditures for computers and equipment for additional personnel and card fulfillment administration.

The Company's financing activities during the year ended September 30, 2004 used cash of \$180,998 consisting primarily of repayments of short-term debt of and capital lease obligations of \$176,951 and \$4,047 respectively.

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 board members of the Company. The Company granted certain officers and board members 400,000 stock options relating to 400,000 shares of Common Stock during the year ended September 30, 2004 for their personal guarantees. The credit agreement was renewed on July 20, 2004 with a new maturity date of July 20, 2005 and bears an interest rate of the bank's prime rate plus 0.9% per annum to be adjusted daily. The Company has \$650,000 available under its credit agreement as of September 30, 2004. 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 credit agreement with SunTrust Bank in Atlanta, Georgia matured on July 31, 2003. The principal balance of \$484,272, plus accrued interest, was repaid in full on August 13, 2003.

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The Company's achieved profitable operations for the year ended September 30, 2004. In addition to the line of credit availability of \$650,000, the Company expects to be profitable for the fiscal year ending September 30, 2005. However, future profitability will depend upon numerous factors, including the success of its product offerings and competing market developments.

IMPACT OF INFLATION

Inflation has not had a material effect on the Company to date. However, the effects of inflation on future operating results will depend in part, on the Company's ability to increase prices or lower expenses, or both, in amounts that offset inflationary cost increases.

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QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

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

ITEM 7. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following financial statements are filed with this report:

Reports of Independent Accountants

Balance Sheets as of September 30, 2004 and 2003

Statements of Operations for the years ended September 30, 2004 and 2003

Statements of Stockholders' Equity for the years ended September 30, 2004 and 2003

Statements of Cash Flows for the years ended September 30, 2004 and 2003

Notes to Financial Statements

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Report of Independent Accountants

The Board of Directors and Stockholders

Alliance HealthCard, Inc.

We have audited the accompanying balance sheets of Alliance HealthCard, Inc. (a Georgia corporation) as of September 30, 2004 and 2003, and the related statements of operations, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Alliance HealthCard, Inc., as of September 30, 2004 and 2003, and the results of operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Miller Ray & Houser LLP

Atlanta, Georgia

November 12, 2004

Table of Contents**Alliance HealthCard, Inc.****Balance Sheets**

| | September 30, | |
|--|--------------------|---------------------|
| | 2004 | 2003 |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 457,848 | \$ 249,831 |
| Accounts receivable, net | 289,866 | 1,508,626 |
| Prepaid expenses and other current assets | 43,757 | 154,772 |
| Total current assets | 791,471 | 1,913,229 |
| Furniture and equipment, net | 52,115 | 75,709 |
| Other assets | | 10,249 |
| Total assets | \$ 843,586 | \$ 1,999,187 |
| Liabilities and stockholders' equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 456,743 | \$ 1,749,959 |
| Accrued salaries and benefits | 231,464 | 248,239 |
| Deferred revenue | 1,427,293 | 1,837,532 |
| Other accrued liabilities | 155,115 | 149,360 |
| Notes payable | | 176,951 |
| Current portion of capital lease obligations | 203 | 4,076 |
| Total current liabilities | 2,270,818 | 4,166,117 |
| Capital lease obligations | | 174 |
| Commitments | | |
| Stockholders' equity: | | |
| Common stock, \$.001 par value; 100,000,000 shares authorized; 4,524,263 shares issued and outstanding at September 30, 2004 and 4,474,263 shares issued and outstanding at September 30, 2003 | 2,323 | 2,273 |
| Additional paid-in-capital | 2,882,977 | 2,848,027 |
| Accumulated deficit | (4,312,532) | (5,017,404) |
| Total stockholders' equity (deficit) | (1,427,232) | (2,167,104) |
| Total liabilities and stockholders' equity | \$ 843,586 | \$ 1,999,187 |

See accompanying notes and report of independent accountants.

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

| | Twelve Months Ending | |
|---|----------------------|----------------|
| | September 30, | |
| | 2004 | 2003 |
| Net revenues | \$ 3,947,344 | \$ 4,400,480 |
| Direct costs | 1,352,214 | 2,662,398 |
| Gross profit | 2,595,130 | 1,738,082 |
| Marketing and sales expenses | 336,378 | 1,378,911 |
| General and administrative expenses | 1,535,368 | 1,451,341 |
| Operating income (loss) | 723,384 | (1,092,170) |
| Other income (expense): | | |
| Other | | 112,750 |
| Interest expense | (18,512) | (26,389) |
| | (18,512) | 86,361 |
| Net income (loss) before income taxes | 704,872 | (1,005,809) |
| Income taxes | | |
| Net income (loss) | \$ 704,872 | \$ (1,005,809) |
| Per share data: | | |
| Basic income (loss) | \$ 0.16 | \$ (0.23) |
| Diluted income (loss) | \$ 0.15 | \$ (0.23) |
| Basic weighted average shares outstanding | 4,478,373 | 4,454,460 |
| Diluted weighted average shares outstanding | 4,576,846 | 4,454,460 |

See accompanying notes and report of independent accountants.

Table of Contents**Alliance HealthCard, Inc.****Statements of Stockholders Equity**

| | <u>Common Stock</u> | | <u>Additional</u> | | <u>Total</u> |
|--------------------------------------|---------------------|---------------|-------------------|--------------------|---------------------|
| | <u>Shares</u> | <u>Amount</u> | <u>Paid-In</u> | <u>Deficit</u> | <u>Stockholders</u> |
| | | | <u>Capital</u> | <u>Accumulated</u> | <u>Equity</u> |
| Balance at September 30, 2002 | 4,428,896 | \$ 2,227 | \$ 2,792,907 | \$ (4,011,595) | \$ (1,216,461) |
| Stock options and warrants exercised | 45,367 | 46 | 55,120 | | 55,166 |
| Net loss | | | | (1,005,809) | (1,005,809) |
| Balance at September 30, 2003 | 4,474,263 | 2,273 | 2,848,027 | (5,017,404) | (2,167,104) |
| Stock issued August 31, 2004 | 50,000 | 50 | 34,950 | | 35,000 |
| Net income | | | | 704,872 | 704,872 |
| Balance at September 30, 2004 | 4,524,263 | \$ 2,323 | \$ 2,882,977 | \$ (4,312,532) | \$ (1,427,232) |

See accompanying notes and report of independent accountants.

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

| | For The Year Ending September 30, | |
|--|--|-------------------|
| | 2004 | 2003 |
| Cash flows from operating activities | | |
| Net income (loss) | \$ 704,872 | \$ (1,005,809) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 34,480 | 22,999 |
| Stock issued in connection with employment services | 35,000 | |
| Change in operating assets and liabilities: | | |
| Accounts receivable | 1,218,760 | (600,367) |
| Prepaid expenses and other assets | 121,264 | 382,058 |
| Accounts payable | (1,293,216) | 444,731 |
| Accrued wages | (16,775) | 133,086 |
| Other accrued expenses | (404,484) | 190,366 |
| Net cash provided by (used in) operating activities | 399,901 | (432,936) |
| Cash flows from investing activities | | |
| Purchase of equipment | (10,886) | (59,930) |
| Net cash used in investing activities | (10,886) | (59,930) |
| Cash flows from financing activities | | |
| Repayments of short-term debt | (176,951) | (477,221) |
| Sale of stock and other issuances | | 55,166 |
| Borrowings (repayments) of lease obligations | (4,047) | (11,193) |
| Net cash used in financing activities | (180,998) | (433,248) |
| Net increase (decrease) in cash | 208,017 | (926,114) |
| Cash at beginning of period | 249,831 | 1,175,945 |
| Cash at end of period | \$ 457,848 | \$ 249,831 |

See accompanying notes and report of independent accountants.

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Alliance HealthCard, Inc.

Notes to Financial Statements

September 30, 2004 and 2003

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. The Company 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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results inevitably will differ from those estimates and such differences may be material to the financial statements.

Cash and Cash Equivalents

For the purposes of the balance sheets and statements of cash flows, the Company considers investments purchased with maturities of three months or less at the time of purchase to be cash equivalents.

Furniture and Equipment

Furniture and equipment are recorded at cost. Depreciation (which includes amortization of assets under capital leases) is computed on a straight-line basis based on management's estimates of the useful lives of the assets (or the term of the related lease, if less), which ranges from three to five years.

Stock Options

Statement of Financial Accounting Standards No. 123 (SFAS 123), Accounting for Stock-Based Compensation, encourages but does not require companies to record compensation cost for their employee stock compensation plans at the fair value of the options granted. The Company has elected to measure compensation costs for stock-based compensation plans using the intrinsic value-based method of accounting prescribed by Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25).

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Alliance HealthCard, Inc.

Notes to Financial Statements, Continued

Income Taxes

Prior to February 1999, the Company was a limited liability corporation and therefore, the owners assumed responsibility for the income taxes of the Company. Effective February 1999, the Company has changed its tax status to a C Corporation. The Company has since adopted FASB Statement No. 109, Accounting for Income Taxes, which requires, among other things, a liability approach to calculating deferred income taxes. The objective is to measure a deferred income tax liability or asset using the tax rates expected to apply to taxable income in the periods in which the deferred income tax liability or asset is expected to be settled or realized. Any resulting net deferred income tax assets should be reduced by a valuation allowance sufficient to reduce such assets to the amount that is more likely than not to be realized.

Accounts Receivable

Accounts receivables are recorded net of an allowance for doubtful accounts established to provide for losses on un-collectible accounts based on management's estimates and historical collection experience. The provision for doubtful accounts was \$128,000 for the year ended September 30, 2004 and \$3,000 for the year ended September 30, 2003. The bad debt expense was \$125,000 and \$2,609 for the years ended September 30, 2004 and 2003, respectively.

Revenue Recognition

In general, members subscribe for renewable one-year memberships in the Company's programs. Membership fees are generally paid to the Company on a monthly or annual basis. For those members paying monthly, the membership fees are recognized on a monthly basis. Membership fees paid in advance on an annual basis are recognized monthly over the applicable twelve-month membership term.

Implementation Expense Recognition

Contracts with insurance companies or other large companies often generate substantial implementation expense. For total contract implementation costs in excess of \$5,000, the Company records that expense over the first twelve-month term of the contract. Costs less than \$5,000 are expensed as incurred. If the contract provides for payments to offset implementation costs, the aggregate amount of such payments is also recognized over the first twelve-month term of the contract.

Advertising Expense

The Company's advertising is non-direct and the costs are expensed as incurred. During the years ended September 30, 2004 and 2003, the Company incurred \$11,194 and \$0 of advertising expense, respectively.

Fair Values of Financial Instruments

Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments", requires the Company to disclose estimated fair values for its financial instruments. Fair value estimates, methods, and assumptions are set forth below for the Company's financial instruments.

The carrying amounts of cash, accounts receivables, other current assets, accounts payable, accrued expenses and current portion and non-current portion of notes payable approximate fair value because of the short maturity of those instruments.

Table of Contents**Alliance HealthCard, Inc.***Notes to Financial Statements, Continued***2. Notes Payable**

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. The credit agreement was renewed on July 20, 2004 with a new maturity date of July 20, 2005 and bears an interest rate of the bank's prime rate plus 0.9% per annum to be adjusted daily. The Company has \$650,000 available under its credit agreement as of September 30, 2004. The working capital facility will continue to be used to provide on-going capital to fund the implementation of new contracts and general corporate operations.

On May 17, 2000 the Company had entered into a credit agreement with SunTrust Bank in Atlanta, Georgia. The agreement provided the Company with a \$500,000 working capital facility secured by personal guaranties from certain officers and directors of the Company in exchange for common stock options and warrants. The credit agreement matured on July 31, 2003 at an interest rate of 5.25% per annum. The principal balance of \$484,272, plus accrued interest, was repaid in full on August 13, 2003.

The Company executed a promissory note with a vendor on September 30, 2002 for \$170,000. The promissory note, related to expenses incurred for a direct mail campaign for the CVS Pharmacy, Inc. contract, was payable in twelve monthly installments of \$14,788 beginning on November 1, 2002 and concluding on October 1, 2003 at an interest rate of 8%. The promissory note was amended on March 31, 2003 and extended until December 31, 2003. The promissory note was paid in full in December of 2003.

3. Furniture and Equipment

Furniture and equipment consists of the following at September 30, 2004 and 2003:

| | September 30, | |
|---|----------------------|------------------|
| | 2004 | 2003 |
| Furniture | \$ 12,023 | \$ 12,023 |
| Equipment | 107,644 | 96,758 |
| Equipment under capital leases | 18,865 | 18,865 |
| | <u>138,532</u> | <u>127,646</u> |
| Less: accumulated depreciation and amortization | (86,417) | (51,937) |
| | <u>\$ 52,115</u> | <u>\$ 75,709</u> |



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Alliance HealthCard, Inc.

Notes to Financial Statements, Continued

4. Stockholders Equity

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. The Offering terminated on September 25, 2002. 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. As of September 30, 2003, the Company received \$52,833 from the exercising of 35,222 Warrants related to this Offering Memorandum. The Company has recognized consulting expense of \$35,000 and \$0 for the years ended September 30, 2004 and 2003, respectively, paid to a vendor, other than an officer, in the form of Common Stock. The Company granted certain officers and board members options to purchase 100,000 shares of Common Stock at \$0.74 and 300,000 shares of Common Stock at \$0.68 per share in return for their personal guaranties on the Company's line of credit for the years ended 2004 and 2003, respectively. (See Liquidity and Capital Resources.)

5. Stock Options

In conjunction with certain employment and consulting agreements, the Company granted stock options relating to 483,994 shares of Common Stock for the year ending September 30, 2004 and 149,500 shares of Common Stock for the year ending September 30, 2003. The Company granted certain board members stock options relating to 400,000 shares of Common Stock during the year ended September 30, 2004 related to the personal guarantees for the Company's line of credit. The Company has reserved 1,300,000 shares of the Common Stock in connection with the stock option plan and 1,256,691 warrants related to the line of credit guarantee for Branch Banking And Trust Company and the Offering Memorandum dated December 15, 2000. The vesting schedules relating to these options granted range from immediate vesting to a three-year vesting period.

The Company has elected to follow APB 25 and related interpretations in accounting for its employee stock options because, as discussed below, the alternative fair value accounting provided for under SFAS 123 requires use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the grant date, no compensation expense is recognized.

Pro forma information regarding net income and earnings per share is required by SFAS 123, which also requires that the information be determined as if the Company has accounted for its employee stock options granted under the fair value method.

The fair value of each option is estimated on the date of grant using the Black-Scholes method with the following weighted average assumptions used for grants for the years ending September 30, 2004 and September 30, 2003.

| | <u>September 30,</u> | |
|-------------------------|----------------------|-------------|
| | <u>2004</u> | <u>2003</u> |
| Expected volatility | .1 | .1 |
| Dividend yield | 0% | 0% |
| Risk free interest rate | 2.6% | 1.3% |
| Expected lives | 5 Years | 5 Years |

For purposes of fair value disclosures, the estimated fair values of the options are amortized to expense over the options' vesting periods. The Company's pro forma net income and loss for the years ending September 30, 2004 and 2003, as determined using the fair value method of accounting of Statement 123, was \$678,117 and (\$1,097,149) respectively.

Table of Contents**Alliance HealthCard, Inc.***Notes to Financial Statements, Continued***5. Stock Options (Continued)**

Information regarding the options is as follows:

| | Weighted Average Exercise Price | Options Outstanding | Options Exercisable |
|-----------------------------|--|--------------------------------|--------------------------------|
| Balance, September 30, 2002 | | 1,272,400 | 1,138,360 |
| Granted | 1.04 | 149,500 | |
| Forfeited | .92 | (19,000) | (13,500) |
| Became exercisable | .96 | | 170,353 |
| Balance, September 30, 2003 | | 1,402,900 | 1,295,213 |
| Granted | .72 | 483,994 | 400,000 |
| Forfeited | 1.14 | (17,999) | (3,333) |
| Became exercisable | .90 | | 91,020 |
| Balance, September 30, 2004 | | 1,868,895 | 1,782,900 |

The aggregate fair value of options granted for the year ending September 30, 2004 and September 30, 2003 was \$267,169 and \$226,735 respectively. The following table summarizes information about stock options outstanding at September 30, 2004.

| | September 30, | |
|---|----------------------|-----------------|
| | 2004 | 2003 |
| Range of exercise price | \$ 0.23-\$1.50 | \$ 0.23 -\$1.50 |
| Number outstanding | 1,868,895 | 1,402,900 |
| Weighted average remaining contractual life | 7.3 Years | 7.4 Years |
| Weighted average exercise price | \$ 0.89 | \$ 0.96 |

During the year ending September 30, 2004, no options were exercised.

Table of Contents**Alliance HealthCard, Inc.***Notes to Financial Statements, Continued***6. Income Taxes**

During the period ending September 30, 2004 the Company's current income tax expense was approximately \$171,000. There was no income tax expense or benefit recorded in the statements of operations for the period ending September 30, 2004 because the Company has adequate net operating loss carryforwards to offset any current period income tax expense that would have been recorded, therefore the net result would have been -0-.

Deferred income taxes arise from temporary differences resulting from income and expense items reported for financial reporting and tax purposes in different periods and the estimated future tax effects of carry-forwards. Deferred income taxes are classified as current or non-current, depending on the classification of the assets and liabilities to which they relate. The Company has established a 100% valuation allowance for its net deferred tax assets due to the uncertainty regarding the realization of these deferred income tax assets, including its net operating loss carry-forwards.

| | September 30, | |
|-----------------------------------|----------------------|--------------|
| | 2004 | 2003 |
| Deferred tax assets: | | |
| Net operating loss carry forwards | \$ 1,064,569 | \$ 1,231,953 |
| Other | (10,090) | (3,601) |
| Gross deferred tax asset | 1,054,479 | 1,228,352 |
| Less valuation allowance | (1,054,479) | (1,228,352) |
| Net deferred tax assets | \$ | \$ |

Significant components of the provision for income taxes are as follows:

| | September 30, | |
|----------|----------------------|--------------|
| | 2004 | 2003 |
| Deferred | | |
| Federal | \$ 896,307 | \$ 1,044,099 |
| State | 158,172 | 184,253 |

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| | | |
|--------------------------|-------------|-------------|
| Total income tax benefit | 1,054,479 | 1,228,352 |
| Less valuation allowance | (1,054,479) | (1,228,352) |
| | <u>\$</u> | <u>\$</u> |

The Company has unused net operating loss carry forwards available to offset future taxable income as follows:

| | |
|--------------|---------------------|
| Expires 2019 | \$ 15,708 |
| Expires 2020 | 825,874 |
| Expires 2021 | 985,235 |
| Expires 2023 | 902,846 |
| | <u>\$ 2,729,663</u> |

Table of Contents**Alliance HealthCard, Inc.***Notes to Financial Statements, Continued***7. Related Party Transactions**

The Company leases the space for its office in Norcross, Georgia under a lease that expires in April 2009. The lease is in the name of Alliance HealthCard, Inc. and NovaNet, Inc., a company partially owned by Robert D. Garces, the Chairman of the Board of the Company. The total space consists of approximately 6,900 square feet and NovaNet leases approximately 1,725 square feet of that space. The lease was executed on May 1, 2004 and terminates on April 30, 2009. The Company's share of the minimum future rental payments due under the non-cancelable operating lease arrangement is as follows:

| <u>Year Ending September 30,</u> | <u>Amount</u> |
|----------------------------------|-------------------|
| 2005 | \$ 86,573 |
| 2006 | 96,626 |
| 2007 | 99,006 |
| 2008 | 101,482 |
| 2009 | 104,013 |
| Thereafter | 8,686 |
| Total | \$ 496,386 |

Prior to May 1, 2004, the Company subleased its office space from an affiliated company. The Company's office consisted of approximately 5,800 square feet of space subleased from NovaNet, Inc. a company partially owned by Robert D. Garces, the Chairman of the Board of the Company. The Company expensed approximately \$104,176 and \$106,847 for the years ending September 30, 2004 and September 30, 2003 respectively. The sublease was executed on April 1, 2002 and terminated on April 30, 2004 at approximately \$8,389 per month through June 2003 and increases to \$8,922 per month for the period from July 2003 through April 2004. The sublease includes the use of reception, office furniture, copying and other office equipment. The Company has also paid deposits of \$9,692 for this sublease to NovaNet. While the sublease was not negotiated at arms-length, the terms of the sublease include lease rental rates equal to those in the primary lease. The Company believes the terms of the sublease are comparable to what it would pay for such space on the open market.

Accounts receivable includes \$8,568 and \$16,514 from NovaNet, Inc. for expenses paid on their behalf for the years ended September 30, 2004 and 2003 respectively.

The Company paid approximately \$269,394 and \$281,488 for the years ending September 30, 2004 and September 30, 2003 respectively relating to printing and card member fulfillment services provided by two companies related indirectly through common ownership.

Table of Contents**Alliance HealthCard, Inc.***Notes to Financial Statements, Continued***8. Equipment Leases**

The Company leases certain equipment under capital leases that expire in 2005. At September 30, 2004, minimum annual rental commitments under capital leases is as follows:

| | |
|---|-------------------|
| 2005 | \$ 179 |
| | <u> </u> |
| Total minimum lease payments | 179 |
| Less: amounts representing interest | 5 |
| | <u> </u> |
| Present value of net minimum lease payments | \$ 174 |
| | <u> </u> |

Assets acquired under non-cancelable capital leases consist of computer equipment with an aggregate cost of \$18,865 at September 30, 2004 and at September 30, 2003 and accumulated amortization of \$18,865 and \$16,891 at September 30, 2004 and September 30, 2003, respectively. Amortization of leased assets is included in depreciation expense.

9. Supplemental Cash Flows Information

The following information supplements the statements of cash flows:

| | <u>2004</u> | <u>2003</u> |
|------------------------|-------------|-------------|
| Cash paid for interest | \$ 25,107 | \$ 23,644 |

10. Concentration of Credit Risk Arising

The Company uses financial institutions in which it maintains cash balances, which at times may exceed federally insured limits. The Company has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on cash. The Company's uninsured cash balance totaled \$332,518 and \$145,320 at September 30, 2004 and 2003, respectively.

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Concentration of credit risk with respect to accounts receivable and revenue is due to a high volume of business conducted with one customer. Approximately \$74,092 (26%) and \$1,247,382 (89%) of total accounts receivable were due from one customer as of September 30, 2004 and 2003, respectively. Approximately \$1,512,172 (38%) and \$2,237,932 (52%) of total sales were generated from the same customer for the years ending September 30, 2004 and 2003, respectively. Another customer generated revenue of approximately \$1,615,967 (41%) and \$1,691,568 (39%) for the years ending September 30, 2004 and 2003, respectively.

Approximately \$362,841 (79%) and \$1,409,126 (84%) of the total accounts payable relate to the party from which more than 26% and 89% of the Company's accounts receivable were due for the years ended September 30, 2004 and 2003, respectively.

Table of Contents**Alliance HealthCard, Inc.***Notes to Financial Statements, Continued***11. Defined Contribution Plan**

The Company implemented a 401(k) plan on August 1, 2004. Eligible employees contribute to the 401(k) Plan. Employees become eligible after attaining age 18. The employee may become a participant of the 401(k) plan on the first day of the month following the completion of the eligibility requirements. The Company may decide to make a Non-elective Contribution to the Plan, although the Company is not required to do so. The Non-elective Contribution will be allocated to all employees eligible to participate in the Plan. The Non-elective Contributions are subject to a vesting schedule that takes six years of service to become 100% vested. All accounts are participant-directed accounts. The Company has not made any Non-elective Contributions for the year ended September 30, 2004.

12. Selected Quarterly Financial Data (Un-audited)

| | <u>First Quarter</u> | <u>Second Quarter</u> | <u>Third Quarter</u> | <u>Fourth Quarter</u> |
|------------------------------|--------------------------|---------------------------|--------------------------|---------------------------|
| 2004 | | | | |
| Revenue | \$ 1,011,165 | \$ 950,756 | \$ 962,737 | \$ 1,022,686 |
| Gross profit | \$ 574,222 | \$ 662,660 | \$ 666,175 | \$ 692,073 |
| Net income | \$ 125,688 | \$ 211,924 | \$ 255,691 | \$ 111,569 |
| Diluted net income per share | \$ 0.03 | \$ 0.05 | \$ 0.05 | \$ 0.02 |
| 2003 | | | | |
| Revenue | \$ 1,060,371 | \$ 1,040,232 | \$ 1,151,885 | \$ 1,147,992 |
| Gross profit | \$ 556,454 | \$ 395,997 | \$ 444,457 | \$ 341,174 |
| Net income | \$ (236,800) | \$ (193,885) | \$ (258,844) | \$ (316,280) |
| Diluted net income per share | \$ (0.05) | \$ (0.04) | \$ (0.06) | \$ (0.08) |

13. Legal Proceedings

On October 20, 2003, Medco Health Solutions, Inc. made a written demand for payment from Alliance HealthCard, Inc. in the amount of \$486,269. The demand was based on allegations that Alliance was liable for these amounts based on an Integrated Prescription Drug Program Master Agreement dated July 1, 2000 (the Agreement). Thereafter, 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 Company has not recorded the alleged expense of \$486,269 on its financial statements for the years ended September 30, 2004 and 2003. In addition to not recording the alleged expense, the Company has not recorded the alleged fees and/or rebates due from Medco Health Systems, Inc. for approximately \$1,500,000 on its financial statements for the years ended September 30, 2004 and 2003. The Company believes this case has a good likelihood of success, but cannot be determined with any certainty. The Defendant can still prevail under a motion for summary judgment or at trial.

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Alliance HealthCard, Inc.

Notes to Financial Statements, Continued

14. Prior Period Adjustments

The Company recorded prior period adjustments consisting of the following items: (a) prior year revenue of \$105,809 resulting from a retroactive amendment to the CVS Pharmacy contract with an effective date of April 1, 2003; (b) prior year royalty expense of \$69,082 related to the termination of a provider network directly associated with the CVS contract. These adjustments resulted in a net increase in revenue of \$36,727, increase in accounts receivable of \$105,809, increase in accounts payable of \$69,082 and a reduction in accumulated deficit of \$36,727 for the year ended September 30, 2003.

15. Reclassifications

Certain reclassifications have been made to the 2003 financial statements to conform to the 2004 presentation.

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ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There has been no occurrence requiring response to this item.

ITEM 8A. 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, 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 assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements 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 last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents**PART III.****ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT****Executive Officers and Directors**

The executive officers and directors of the Company, and their respective ages as of September 30, 2004, are as follows:

| <u>Name</u> | <u>Age</u> | <u>Position</u> | <u>Term</u> |
|------------------------------|------------|--|-------------|
| Robert D. Garces | 55 | Chairman of the Board of Directors and Chief Executive Officer | One Year |
| Thomas W. Kiser | 41 | Director and President | One Year |
| Robert R. Goodyear | 57 | Chief Operating Officer and Secretary/Treasurer | One Year |
| Rita W. McKeown | 51 | Chief Financial Officer | One Year |
| Howard C. Chandler, Jr. M.D. | 43 | Director | One Year |
| Larry G. Gerdes | 55 | Director | One Year |
| Richard M. Jackson | 50 | Director | One Year |

Robert D. Garces, Chairman of the Board of Directors and Chief Executive Officer

Mr. Garces is a co-founder of the Company and has served as the Chairman of the Board of Directors and Chief Executive Officer since the Company was organized. Mr. Garces also serves as Chairman of NovaNet, Inc., a company he founded in 1994 that provides a network of physicians, hospitals and other ancillary health services to self-insured employers and insurance companies. In 1996, Mr. Garces co-founded Better Image, Inc. a consolidation of Plastic Surgeons around the United States. In 1974, Mr. Garces started the Atlanta company of Southeastern Medical Consultants, a physician billing and management company. During this same period he also founded two companies, which grew into one of the largest physician billing companies in the southeast. (i) ARTAC, a software and receivables management company for hospital business offices; (ii) Southern Medical Imaging, a mobile imaging company comprising 41 mobile CT units and 40 mobile MRI units. In 1989 he developed a physician billing company for anesthesia departments for hospitals.

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Thomas W. Kiser, Director and President

Mr. Kiser is a co-founder of the Company with Mr. Garces and has served as its President since the Company was organized. In 1996, Mr. Kiser founded TWK Enterprises, Inc., a real estate acquisition and development company in Atlanta, Georgia. Mr. Kiser also serves as President of TWK Enterprises, Inc., however, operations are handled by outside property management, reporting to Mr. Kiser. From 1991 to 1996, Mr. Kiser formed two franchise companies, TC Concepts, Inc. in Orlando, Florida and MKM, Inc. in Atlanta, Georgia, which were sold in 1994 and 1997 respectively. From 1989 through 1991, Mr. Kiser held retail and institutional sales positions with Bear Stearns Company and Shapiro Carter and Company. In 1988, Mr. Kiser joined Marshall and Company, an Atlanta based regional investment banking firm specializing in the private placement and underwriting of securities of small-capitalization southeastern companies. From 1986 through 1988, Mr. Kiser was an assistant manager with Stuart James Co, an investment banking and brokerage company. Mr. Kiser holds a Bachelor of Science degree in economics from Vanderbilt University in Nashville, Tennessee.

Robert R. Goodyear, Chief Operating Officer and Secretary/Treasurer

Mr. Goodyear joined the Company in 1999 and is the chief operating officer. In 1997 and 1998, Mr. Goodyear served as president and chief executive officer of Lumen, a Marietta, Georgia healthcare consulting firm specializing in process re-design and re-engineering, management transformation and leadership development services. From 1991 through 1996, Mr. Goodyear was senior vice-president of the Marietta based healthcare division of First Data Corp. Mr. Goodyear has also held senior marketing and sales positions with other healthcare companies such as Inforum, Inc. in Nashville, Tennessee and HBO & Co. in Atlanta. From 1981 through 1986, he served as the chief executive officer of Community Memorial Hospital in Monmouth, Illinois and during four years prior thereto was the assistant administrator and chief financial officer of St. Joseph Medical Center in Ponca City, Oklahoma. Mr. Goodyear received his Bachelor of Science degree in business administration from the University of Arkansas in Fayetteville, Arkansas and received an MBA from the University of Evansville in Evansville, Indiana. Among other activities, Mr. Goodyear is a Fellow of the Healthcare Financial Management Association and a member of the American College of Healthcare Executives.

Rita W. McKeown, Chief Financial Officer

Ms. McKeown is the Company's chief financial officer. From 1994 to 1999, Ms. McKeown served as director of finance of Transcend Services, Inc., an Atlanta Georgia healthcare company specializing in patient information management solutions for hospitals and other associated healthcare providers. From 1991 to 1994, Ms. McKeown served as director of accounting of Premier Anesthesia, Inc. From 1981 to 1991, Ms. McKeown held multiple senior accounting positions with HBO & Co in Atlanta. Ms. McKeown is a Certified Public Accountant and received her Bachelor of Business Administration from Kennesaw State University in Kennesaw, Georgia.

Howard C. Chandler, Jr. M.D., Director

Dr. Chandler is a Board Certified practicing neurosurgeon and is the President and Chief Executive Officer of the Montana Neuroscience Institute, located in Missoula, Montana. He is also founder and Chairman of Interwest Health, LLC, a managed care organization that develops and maintains networks of physicians, hospitals and ancillary health services used by insurance companies and self-insured employers. He has been the program director of the Montana Neurosurgery Symposium since 1995. Dr. Chandler holds a Bachelor of Science degree in chemistry from the University of the South in Sewanee, Tennessee where he graduated cum laude. He completed medical school at Bowman Gray School of Medicine of Wake Forest University in Winston-Salem, North Carolina. Dr. Chandler holds licenses in the states of Montana and Florida. He is a member in good standing of the American Medical Association, Montana Medical Association and the Congress of Neurological Surgeons.

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Larry G. Gerdes, Director

Mr. Gerdes has served as a Director of the Company since February 1, 2001. Mr. Gerdes has served as the President and Chief Executive Officer of Transcend Services, Inc. since May 1993. From 1991 to 1993, Mr. Gerdes was a private investor and from May 1992 until January 1995, Mr. Gerdes was the Chairman of the Board of Directors of the former Transcend Services, Inc. For the five years prior to 1991, Mr. Gerdes held various executive positions with HBO & Company, including Chief Financial Officer and Executive Vice President. Mr. Gerdes also serves as a Director of EBIX.Com, Inc.

Richard M. Jackson, Director

Mr. Jackson is currently the President of Surgical Information Systems, which he founded in 1997. In 1992, Mr. Jackson co-founded Premier Ambulatory Surgery Center out of Pasadena, CA, which became the 3rd largest surgery center company in America and recently became a part of HealthSouth. In 1987, Mr. Jackson founded and served as chairman of the board of a hospital staffing firm that subsequently became Premier Anesthesia, one of the largest anesthesia contract management firms in the industry. In 1978, Mr. Jackson founded Jackson & Coker, a physician-recruiting firm.

SECTION 16 - BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's Directors, executive officers and persons who own more than 10% of the outstanding Common Stock of the Company to file with the Securities and Exchange Commission reports of changes in ownership of the Common Stock of the Company held by such persons. Officers, Directors and greater than 10% stockholders are also required to furnish the Company with copies of all forms they file under this regulation. To the Company's knowledge, based solely on a review of the copies of such reports furnished to the Company and representations that no other reports were required, all Section 16(a) filing requirements applicable to its Directors excluding Howard Chandler, Jr., officers and greater than 10% stockholders were complied with during the year ended September 30, 2004.

A Form 4 report for Howard Chandler, Jr., filed on January 29, 2004 was not filed within the required time period required by Section 16(a) of the Securities Exchange Act of 1934. The transaction represented 18,000 shares of the Company's common stock purchased on January 7, 2004 and January 23, 2004 that were not reported until January 29, 2004.

Due to the complexity of reporting obligations of directors and executive officers imposed by the federal securities laws, we anticipate implementing procedures to assist our directors and executive officers in meeting their disclosure obligations in the future.

Audit Committee Financial Expert

The entire Board of Directors performs the functions of the audit committee. The Company does not have an audit committee financial expert serving on the audit committee. The Company intends to create an Audit Committee and add a person to the Board of Directors and the Audit

Committee that meets the qualifications required of an audit committee financial expert.

Table of Contents**Code of Ethics**

We have a code of ethics (the Code) that applies to members of our Board of Directors, our officers including our president (being our principal executive officer), and our chief financial officer (being our principal financial and accounting officer). The Code sets forth written standards that are designed to deter wrongdoing and to promote: honest and ethical conduct, full, fair, accurate, timely, and understandable disclosure in reports and documents that we file with, or submit to, the Securities and Exchange Commission and in other public communications made by us; compliance with applicable governmental laws, rules and regulations; prompt internal reporting of violations of the Code to an appropriate person or persons identified in the Code; and accountability for adherence to the Code.

A copy of the Code is attached to this Form 10-KSB as an exhibit.

ITEM 10. EXECUTIVE COMPENSATION

The following table sets forth the cash and non-cash compensation paid by the Company to its Chief Executive Officer and all other executive officers for services rendered during the fiscal year ended September 30, 2004.

SUMMARY COMPENSATION TABLE

| Name and Principle | Year | Annual Compensation | | Long Term Compensation |
|---|------|---------------------|--------|---------------------------------------|
| | | Salary | Bonus | Securities Underlying Options/SARs |
| Position | | \$ | \$ | (#) |
| Robert Garces, Chairman & Chief Executive Officer | 2004 | 133,339 | 37,500 | 80,000 |
| | 2003 | 97,855 | 35,000 | 50,000 |
| Thomas Kiser, Director & President | 2004 | 122,207 | 22,500 | 80,000 |
| | 2003 | 70,849 | 10,000 | 15,000 |
| | 2002 | 77,691 | | 60,000 |
| Robert Goodyear, Chief Operating Officer & Secretary/Treasurer | 2004 | 105,614 | 22,500 | |
| | 2003 | 88,000 | 25,000 | 25,000 |
| | 2002 | 100,000 | | |
| Rita McKeown, Chief Financial Officer | 2004 | 70,538 | 7,500 | 5,000 |
| | 2003 | 63,531 | 1,000 | 6,000 |
| | 2002 | 69,992 | | |

Table of Contents**Options/SAR Grants in Last Fiscal Year**

The following table sets forth information regarding individual grants of options and warrants to purchase Alliance HealthCard Common Stock during the twelve months ended September 30, 2004 to each of the Named Executive Officers. All stock option grants were made pursuant to the Alliance HealthCard, Inc. 1999 Stock Option Plan. The compensation committee of the Board of Directors approved all stock option grants during 2004.

| <u>Name</u> | <u>Number of Securities Underlying Options/SAR s Granted (#) (1)</u> | <u>% of Total Options/SAR s Granted to Employees in Fiscal Year (2)</u> | <u>Exercise or Base Price (\$/Share)</u> | <u>Expiration Date</u> |
|-------------------|--|---|--|------------------------|
| Robert Garces (3) | 60,000 | 12.4% | \$ 0.68 | September 8, 2014 |
| Robert Garces (3) | 20,000 | 4.1% | \$ 0.74 | September 8, 2014 |
| Thomas Kiser (4) | 60,000 | 12.4% | \$ 0.68 | September 8, 2014 |
| Thomas Kiser (4) | 20,000 | 4.1% | \$ 0.74 | September 8, 2014 |
| Rita McKeown (5) | 5,000 | 1.0% | \$ 1.01 | May 26, 2014 |

- (1) Stock options are granted with an exercise price equal to the fair market value of the Alliance HealthCard Common Stock on date of grant.
- (2) Alliance HealthCard granted options and warrants to purchase an aggregate of 483,994 shares to all directors, officers and employees in the twelve months ended September 30, 2004.
- (3) Mr. Garces was granted 80,000 options on September 8, 2004. These options are fully vested.
- (4) Mr. Kiser was granted 80,000 options on September 8, 2004. These options are fully vested.
- (5) Ms. McKeown was granted 5,000 options on May 26, 2004. These options vest over a three year period.

Compensation of Directors

The Company's Directors do not receive any compensation for their services on the Board of Directors or any committee thereof, but are reimbursed for expenses incurred in connection with their attendance at Board or committee meetings. However, non-employee directors have received options to purchase shares of Common Stock pursuant to the 1999 Stock Option Plan.

Table of Contents**ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth, as of September 30, 2004, certain information regarding the shares of the Company's outstanding Common Stock beneficially owned by each person who is known by the Company to own beneficially or exercise voting or dispositive control over more than 5% of the Company's Common Stock and (ii) by each of the Company's officers and directors. (1) The address for all persons listed below is: 3500 Parkway Lane, Suite 720, Norcross, Georgia 30092.

| | Shares of Common Stock Beneficially Owned (1) | % of Ownership |
|---------------------------------------|--|---------------------------|
| Robert D. Garces (2) | 1,095,800 | 22.2% |
| Thomas W. Kiser | 1,020,050 | 20.8% |
| Robert R. Goodyear | 193,000 | 4.1% |
| Rita W. McKeown | 35,400 | 0.8% |
| Howard C. Chandler, Jr. (3) | 704,600 | 15.1% |
| Larry G. Gerdes (4) | 316,665 | 6.8% |
| Richard Jackson (5) | 325,668 | 6.9% |
| All directors and officers as a group | 3,691,183 | 61.1% |

- (1) Beneficially Owned includes shares for which an individual, directly or indirectly, has or shares voting or investment power or both and also includes shares of Common Stock underlying options and warrants to purchase Common Stock which are exercisable within sixty days of the date hereof. Beneficial ownership as reported in the above table has been determined in accordance with Rule 13d-3 of the Securities Exchange Act of 1934. The percentages are based upon 4,524,263 shares outstanding as of September 30, 2004 except for certain parties who hold presently exercisable options to purchase Common Stock, which are exercisable within 60 days of September 30, 2004. The percentages for those parties who hold presently exercisable options to purchase Common Stock, which are exercisable within 60 days of September 30, 2004, are based upon the sum of 4,544,263 shares plus the number of shares subject to presently exercisable options to purchase Common Stock, which are exercisable within 60 days of September 30, 2004, held by them as indicated in the following notes. Unless otherwise indicated, each person has sole voting and dispositive power with respect to all shares listed opposite his name.
- (2) Includes 1,200 shares held by Mr. Garces' minor children and 1,050 shares held by Mr. Garces' spouse.
- (3) Includes 3,600 shares held by Mr. Chandler's minor children and 192,000 shares held by Mr. Chandler's spouse.
- (4) Includes 166,666 shares held by Gerdes Huff Investments of which Mr. Gerdes is a general partner and 9,999 shares held by Gerdes Family Partnership of which Mr. Gerdes is a general partner.
- (5) Includes 116,668 shares held by Jackson Investment Group of which Mr. Jackson is a general partner.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**Management Relationships**

Robert D. Garces and Howard Chandler, Jr., a director of the Company, are brothers-in-law.

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ITEM 13. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) The following documents are filed as a part of this Annual Report for Alliance HealthCard, Inc.:

I. Financial Statements

The Financial Statements, the Notes to Financial Statements and the Report of Independent Auditors listed below are included in Item 7.

Reports of Independent Auditors.

Balance Sheets as of September 30, 2004 and 2003

Statements of Operations for the years ended September 30, 2004 and 2003

Statements of Stockholders' Equity for the years ended September 30, 2004 and 2003

Statements of Cash Flows for the years ended September 30, 2004 and 2003

Notes to Financial Statements

Financial Statement Schedules are not required

(b) Reports on Form 8-K.

The Company did not file any reports on Form 8-K during the year ended September 30, 2004.

(c) Exhibits

Exhibit 10.1 CVS Contract

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- Exhibit 10.2 State Farm Contract
- Exhibit 14.1 Alliance HealthCard, Inc. Code of Business Conduct and Ethics Policy
- Exhibit 31.1 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- Exhibit 31.2 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 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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ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Audit Fees

The aggregate fees billed by Miller Ray & Houser LLP for professional services rendered for the audit of the Company's annual financial statements for the years ended September 30, 2004 and 2003 and the reviews of the financial statements included in the Company's Quarterly Reports on Form 10-Q for those years were \$39,000 and \$35,100, respectively. No person or firm other than Miller Ray & Houser LLP performed audit related services for the Company in either 2004 or 2003.

Tax Fees

The aggregate fees billed by Miller Ray & Houser LLP for professional services rendered in conjunction with federal, state and local income tax return preparation and signature in 2004 and 2003 were \$1,500 and \$1,400, respectively.

All Other Fees

There were no other fees billed by Miller Ray & Houser LLP for the years ended September 30, 2004 and 2003.

The Company has no audit committee. The Board of Directors pre-approves all audit and non-audit services to be performed by the Company's independent auditors.

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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.

December 22, 2004

By: /s/ Robert D. Garces

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

December 22, 2004

By: /s/ Rita McKeown

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