

ALLIANCE HEALTHCARD INC
Form 10KSB
January 13, 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, 2003

or

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number 0001087216

Alliance HealthCard, Inc.

(Exact name of registrant as specified in its charter)

GEORGIA
(State or other jurisdiction of

incorporation or organization)

58-2445301
(I.R.S. Employer

Identification No.)

3500 Parkway Lane, Suite 720, Norcross, GA 30092

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(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 x 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, 2003 were \$4,294,671.

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 17, 2003 was \$1,887,590.

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

<u>Class</u>	<u>Outstanding at December 18, 2003</u>
Common Stock, \$.001 par value	4,494,263

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

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ALLIANCE HEALTHCARD, INC.

FORM 10-KSB

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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) specializes in creating, marketing and distributing value added healthcare savings programs, services, and products. Alliance gives individuals and families access to healthcare providers offering up to 16 major healthcare services at significantly discounted fees for a low annual fee. Alliance markets to predominantly underserved markets where individuals either have limited health benefits, or no insurance. These markets may vary widely from senior populations with Medicare (no prescription benefits), part-time employees, to pockets of the over 40 million uninsured looking for lower cost medical services and access to providers.

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.

The Company was founded with the expectation of marketing its programs in the name of Alliance HealthCard, Inc. It soon became apparent that there are many organizations that desire healthcare savings programs but are either unwilling or incapable of developing the provider networks, infrastructure and systems necessary to do so. Today, a major strength of the Company's sales and delivery strategy is to include the provision of provider networks, systems and services to third party organizations that will provide them to their various constituencies (e.g. insurance companies, retail pharmacies and large employers with part time employees, etc.) Those organizations can then create an additional revenue stream while providing a valuable service to their customers or employees. The benefits of such a program range from customer loyalty to incremental business previously going to competitors.

Membership Service Programs

The Company offers memberships on an individual basis. Individual memberships are marketed to consumers through retail pharmacies, insurance companies, large employers and associations.

Through Alliance's provider networks, cardholders will be offered discounts for products and services ranging from 10% to 75% depending on the area of coverage and the specific procedures. Below are examples of the range of discounts in the major service categories:

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<u>Service</u>	<u>Discount Off Retail</u>
Dental Care	10-75%
Vision Care	
Prescription eyeglasses	10-60%
Contact Lenses	10-60%
Sunglasses	20-50%
Lasik (vision correction)	10-30%
Hearing Aids	15-40%
Prescription Drugs	10-50%
Chiropractic Care	25%
Nurse Help Line	Complementary
Orthodontics	23-35%
Massage Therapy	25-35%
Physical Therapy	15-20%
Fitness Centers	Preferred Rate
Acupuncture	25%
Physicians	20%-40%
Hospitals	20%-50%
Outpatient Centers	10%-40%
Mental Health/Life Care	10-30%

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In general, members subscribe for renewable one-year memberships in the Company's programs. The membership fees related to the healthcare provider model are paid directly to the Company by the individual members. Membership fees for subscribers through insurance companies, large employers, and associations are generally paid directly to the Company by the associated company, not the individual subscriber.

Members who enroll in a program through the healthcare provider model sometimes receive a trial membership. During the trial membership, the member may use the program's services without obligation, as outlined in a membership brochure included in each fulfillment kit along with a membership card and membership identification number. Trial memberships are generally for a period of 30 or 90 days and there are no conditions with respect to the ability of the consumer to terminate a trial membership. The Company does not record any revenue with respect to trial memberships. The consumer is charged the monthly or annual membership fee upon enrollment in a program. In the event that the member cancels the membership during the initial trial membership period, the full membership fee is refunded. During the course of an initial annual membership term or renewal term, a member is free to cancel a membership in the program, generally for a prorated refund of the membership fee for the remaining period.

Members enrolled through the institutional distribution model are already policyholders with the insurance company. Insurance companies provide the health savings card to the selected group of policyholders, such as Medicare supplement or life insurance policyholders. The membership may be provided at a minimal cost or no additional cost to the policyholder. The membership term is for one year and is generally paid to the Company on a monthly or annual basis. Membership fees generated through the institutional model are generally paid to the Company by the institution. For memberships paid for in advance on an annual basis, revenue is recognized monthly over the applicable twelve-month period. Membership fees generated through the institutional model are generally paid to the Company by the institution.

Members who enroll through the retail model generally consist of individuals who have limited or no health benefits. They may enroll directly in the Alliance Gold or Platinum Card program. Or, an employer may choose to provide a Gold or Platinum membership, or a variation thereof, at no cost to its employees or may choose to capture all or part of the membership fee from the employee through payroll deduction.

Network Contracts

Alliance offers its members 16 healthcare provider services nationwide. 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.

The Company contracts directly with independent providers and provider service organizations as well as with national and regional provider networks (leased networks). Provider services are typically discounted an average of 30% off retail or usual and customary charges with discounts ranging from 10% to 75%.

A leased network requires the Company to pay an access fee based on the number of active card members who have access to the network's providers and practitioners. These fees range from \$0.02 to \$4.00 per member per month. The contracts guarantee access and discounts off the network's usual and customary fee schedules.

At the present time, the Company has provider agreements throughout the United States that provide access to approximately 50,000 pharmacies, 15,000 optical centers, 15,000 chiropractic doctors, 300,000 medical doctors, 50,000 dentists, 5,000 alternative medicine and over

30,000 other service providers.

Member Services

The Company believes that providing high quality 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. All new membership 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

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with friendly, rapid and effective answers to questions. The Company purchased technology in 2003 that will provide additional contact center capacity and a broader range of communications options for current and potential members. This technology will also provide significant enhancements in reporting capabilities, which will be deployed to improve performance and minimize expense. This year, the Company consolidated all contact center operations into its Atlanta office and expects to save approximately \$200,000 in outsourced customer service expense. 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.

Technology

The Company has made substantial investments in its proprietary technology and management information systems. These systems were designed in-house and are used in all aspects of its business, including:

Maintenance of member eligibility and demographic information;

Maintenance of provider locator services;

Member billing on a monthly or annual basis; and

Commission tracking

In the past year, the Company has made investments in the development of Internet-based capabilities. Clients are now able to include online enrollment and provider lookup capabilities on their own websites by accessing these Company services. Further use of the Internet as a means of providing members and clients greater access to their files is a major thrust of the Company's technology group.

PRODUCTS

Based on the target market, Alliance offers several different healthcare benefit card programs that provide to members 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.

The 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 (e.g. Medicare). The benefit categories of the Gold Card are:

Pharmacy
Vision
Dental
Hearing
24-hour nurse line

Chiropractic
Alternative Medicine
Long-Term Care
Mental Health
Physical Therapy

Medical Supplies
Medical Lab Services
Podiatry
Emergency Medical Response

The 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 medical providers, including hospitals and physicians. With over 465,000 providers nationally, this product targets those with little or no insurance, or those with just catastrophic

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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

INDUSTRY OVERVIEW

Alliance provides healthcare solutions for individuals and families who are insured, underinsured (limited benefit insurance plans), and uninsured. 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. 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 under Medicare. Other clients purchase Alliance memberships for their customers to enhance customer loyalty and retention.

The Insured

The Company believes that a large number of individuals who have traditional health care coverage in the United States are classified as insured. Most often, that coverage is provided by an employer or by the consumer’s being demographically eligible for government programs such as Medicare and Medicaid. While such coverage is usually satisfactory, it is most often used for catastrophic situations and covers only certain traditional, mainline services such as hospitalization and medical doctors. There are often significant gaps in coverage that may place the consumer at financial risk. Services that are essential to the quality of life may be excluded. Dental, orthodontia, hearing aids, non-prescription nutritional supplements, and eyeglasses are examples of some of the items that may be excluded from many plans.

The Underinsured

The definition of underinsured usually focuses on the issue of assumed risk. A fully insured individual is ordinarily exposed to a level of potential out of pocket cost for deductibles and co-payments that would not be disruptive to that individual’s personal financial situation. By contrast, the underinsured individual has, for whatever reason, assumed a higher level of financial risk for those out of pocket expenses, a level that may be considered a hardship if incurred.

The Uninsured

The Company believes that a significant number of individuals in the United States have no health care coverage whatsoever they are uninsured. Self-employed individuals, workers in casual occupations such as agriculture, construction, fast food, entertainment and hospitality, semi-retirees and early retirees are possible examples.

In summary, there are many Americans at risk for major healthcare-related expenditures for which they would be personally responsible. These consumers are looking for ways to reduce their out of pocket expenditures and the financial burden they would otherwise incur.

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 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

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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.

On September 30, 1999, the Company completed a \$900,000 private stock offering under Regulation 504 consisting of 1,080,000 shares of Common Stock and 124 shareholders. The Company used the funds to successfully build the infrastructure for network development, customer support systems and its sales and marketing team.

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. The Company's board of directors also approved a three for one stock split effective November 1, 2000.

In anticipation of the CVS contract beginning in January 2001, the Company began another private stock offering under Regulation 506 in December 2000. The offering was for 333,333 Units of its securities, for a total of \$1,500,000. Each Unit was comprised of three shares of Common Stock 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 approximately 65 shareholders pursuant to the exemption set forth in Regulation D, Rule 506. The Company completed the Offering on September 25, 2002.

BUSINESS STRATEGY

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.

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. The Company's distribution strategy is built on three models:

Healthcare Provider Model- Alliance partners with healthcare providers to give their customers access to the savings available through Alliance's network of healthcare services in addition to those offered by the providers themselves. (Example: retail pharmacies)

Institutional Model- Alliance produces custom and/or co-branded healthcare savings card to create an added value for an institution's existing product or service, or a card for resale by the institution. (Example: healthcare related insurance companies)

Retail Model- Alliance sells cards to individuals on a direct basis, or through agents, brokers and resellers.

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The Gold and Platinum cards are the Company's principal retail or individual consumer oriented products and represent the Company's retail distribution model. Variations of the Gold and Platinum cards, i.e., co-branded cards, are sold through healthcare providers to their customers and represent the healthcare provider model. The Company, however, has issued the majority of its healthcare benefit cards to certain policyholders of insurance companies that purchased the cards from Alliance. These insurance company clients distributed the cards as a value added benefit to their policyholders. The Company believes that this institutional distribution model may offer the greatest near-term growth opportunities for its card base.

The Company believes its product design flexibility, in conjunction with systems and operations built around its distribution models, is unique in the industry and that competitors takes a "one size fits all" approach to program design. The Company's flexible approach to clients needs should contribute directly to the success of its business strategy.

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The Company's future profitability, liquidity and capital requirements will depend upon numerous factors, including the success of its product offerings and competing market developments. The Company has not yet achieved, and may never achieve, profitable operations. In December 2000, the Company signed a ten-year contract with CVS Pharmacy, Inc., a major retail chain consisting of approximately 4,100 locations that sell a version of the Company's Gold Card at its pharmacy counters to individuals who lack pharmacy and/or other health benefits. The Company executed a three-year contract with State Farm Mutual Automobile Insurance Company in April 2002 with implementation beginning in July 2002. In December 2002, the Company signed a three-year contract with four subsidiaries of an insurance holding company with full implementation occurring in January 2003. The Company also executed a two-year contract in July of 2003 with an international manufacturer and marketer of unique home, health and personal care products. The manufacturer and marketer will sell a version of the Company's Gold Card to their customers. The Company intends to fund its ongoing development and operations through a combination of sales through these existing contracts and potential new contracts.

The Company expects to be profitable in its second fiscal quarter of 2004 if its pipeline business closes and comes on stream on the dates anticipated and at the expected implementation costs. Alliance is still an emerging company and very sensitive to the timing of new business implementations and staying within their implementation budgets.

SALES AND MARKETING

The Company currently employs one full-time sales professional. Alliance's prospects and sales have emerged principally from personal contacts by the Company's sales professional and executive officers with healthcare related executives as well as referrals from its board of directors. The Company also retains several independent consultants who market its products and services, and are compensated solely on the basis of actual sales closed.

CUSTOMERS

The Company executed a two-year contract in July of 2003 with an international manufacturer and marketer of unique home, health and personal care products. The manufacturer and marketer will sell a version of the Company's Gold Card to their customers. In December 2002, Alliance signed separate three-year contracts with four subsidiaries of an insurance holding company. After the initial term, each contract renews automatically for a one-year term. The Company also executed a three-year contract with State Farm Mutual Automobile Insurance Company in April 2002. State Farm's co-branded Good Neighbor Advantage card gives its policyholders discounts on their drug purchases within Alliance's drug store network plus discounts on vision, dental, hearing, chiropractic and alternative medicine services; and diabetes management supplies. A 24-hour nurse line service is also available. The initial term of the contract is three (3) years and it renews for one (1) year terms thereafter. In December 2000 the Company executed a ten-year contract with CVS Pharmacy, Inc., a major retail chain consisting of over 4,100 locations that are selling the cards at their pharmacy counters to certain individuals who lack pharmacy and other health benefits. The CVS membership card, co-branded as the Health Savings Pass, is a variation of the Company's Gold card. The initial term of the agreement is five (5) years and it renews for consecutive five (5) year terms until either party provides written notice of cancellation at least 180 days prior to the expiration of the then current term. 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

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There are several companies that compete with the Company. Although the medical savings industry is still in its early stages, competition for members is becoming more intense. The Company's principal competitors are Eckerd, Member Works/Discount Development Services, Peoples Prescription Plan, and Readers Digest's YouRX Plan. Its other competitors include large retailers, insurance companies and other organizations that offer benefit programs to their customers.

Due to the lack of market dominance by any one company, the industry does present an attractive opportunity for new entrants. It is the Company's belief that the low price point of its product and the high cost of member acquisition will dissuade many entrants. By focusing on delivery models that rely upon established customer relationships (i.e. the existing

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customer base of a large healthcare provider or the labor force of a large employer), Alliance believes that it will be able to minimize the acquisition cost of its members.

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, 2003, the Company employed 15 individuals on a full-time basis and 3 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.

The Company's executive offices are located in Norcross, Georgia, consisting 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 sublease was executed on April 1, 2002 and terminates on April 30, 2004 at approximately \$8,389 per month through February 28, 2003 and increases to \$8,922 per month for the period from March 1, 2003 through April 30, 2004. The sublease includes the use of reception, office furniture, copying and other office equipment. While the sublease was not negotiated at arms-length, the Company believes the terms of the sublease are comparable to what it would pay for such space on the open market. The Company believes that it has adequate office space for its current operations.

ITEM 3. 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

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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.

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The Company did not submit any matters to a vote of security holders during the year ended September 30, 2003. The Company will hold its next annual meeting during the Company's second fiscal quarter ending March 31, 2004.

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 December 17, 2003 there were 152 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 prior to September 30, 2003.

	Price Per Common Share	
	High	Low
Year Ended September 30, 2003		
First Quarter	\$ 2.50	\$ 1.05
Second Quarter	\$ 2.15	\$ 0.75
Third Quarter	\$ 1.50	\$ 1.01
Fourth Quarter	\$ 1.20	\$ 0.34

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.

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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. See Liquidity and Capital Resources.

Results of Operations

Year Ended September 30, 2003 Compared to Year Ended September 30, 2002

Net revenues for the company increased \$2,909,841 to \$4,294,671 for the year ending September 30, 2003 from \$1,384,830 for the same prior year period. The increase of \$2,909,841 was attributable to the following: (a) the State Farm Mutual Automobile Insurance Company contract signed in April 2002 with a start date of June 1, 2002; (b) an increase of membership cards related to the CVS contract; (c) the contract of an insurance holding company signed in December 2002.

Gross profit increased \$1,271,235 to \$1,632,273 for the year ended 2003 from \$361,038 for the same prior year. The increase in gross profit was primarily attributable to the CVS contract from the following: (a) an increase in net revenues as a result of additional membership cards for the year ended 2003; (b) a decrease in direct costs for the year ended 2003 as a result of a direct mail campaign conducted for the year ended 2002. State Farm accounted for approximately 11% of the increase.

Marketing and sales expenses increased \$686,489 to \$1,309,829 for the year ending September 30, 2003 from \$623,340 for the year ending September 30, 2002 primarily as a result of additional cards outstanding under the CVS contract. The additional revenues resulted in higher royalty expense related to the CVS contract. Expenses incurred for independent sales consultants and commissions also accounted for 28% of the increase.

General and administrative expenses increased to \$1,451,341 for the year ending September 30, 2003 from \$1,350,575 in the prior year. The increase of \$100,766 is attributable to the following: (a) an increase in compensation expense of approximately \$57,000 for additional personnel; (b) an increase of approximately \$26,000 for employee benefit costs; (c) an increase of \$17,766 for general office expenses associated with personnel additions and the relocation of the Company to a larger office space in April of 2002. See Related Party Transactions .

Other income increased \$112,750 for the year ending September 30, 2003 as a result of compensation received from CVS Pharmacy, Inc. representing payment of expenses incurred by the Company in 2002 associated with a direct mail campaign related to the CVS contract. Interest expense increased \$6,455 for the year ending September 30, 2003 to \$19,934 as a result of a higher average outstanding principal balance on the Company's line of credit for October 2002 through July 2003.

The Company reported a net loss of \$1,042,536 in 2003 compared to a net loss of \$1,632,811 for the prior year. The decrease in the net loss is principally a result of the increase in the abovementioned revenue and gross profit increase from the CVS and State Farm contracts.

Liquidity and Capital Resources

The Company's operations used cash of \$433,110 for the year ended September 30, 2003 primarily as a result of the Company's net loss and an increase in accounts receivable related to the CVS contract.

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The Company's net working capital decreased \$1,028,377 to \$(2,289,615) during the 12 months ended September 30, 2003 from \$(1,261,238) at September 30, 2002. The decrease in working capital was attributable to the following: (a) a decrease in cash due to the Company's net loss; (b) an increase of \$370,451 in accounts payable related to the CVS contract; (c) an increase in accrued compensation due to salary deferrals for certain officers and employees; (d) an increase in deferred revenue primarily relating to annual membership payments received from members related to the CVS contract.

The Company's investing activities during the year ended September 30, 2003 used cash of \$59,930 for capital expenditures for computers and equipment for card administration related to the increase in outstanding membership cards.

The Company's financing activities during the year ended September 30, 2003 used cash of \$433,074 primarily for the repayment of short-term debt. The principal balance of \$484,272 for the line of credit with SunTrust Bank was repaid in full on August 13, 2003. The Company also repaid \$118,249 for a promissory note executed with a vendor on September 30, 2002 for \$170,000. The repayment of short-term debt was offset by \$55,166 received from existing shareholders who exercised stock options and warrants related to the Offering Memorandum dated December 15, 2000.

On May 22, 2003 the Company extended its 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 who received common stock options in exchange for their guaranties. The credit agreement matured on July 31, 2003. The principal balance of \$484,272, plus accrued interest, was repaid in full on August 13, 2003. The Company secured a new working capital facility on July 10, 2003 with Branch Banking And Trust Company. The agreement provides the Company with a \$650,000 working capital facility secured by personal guaranties from certain officers and directors of the Company. The credit agreement matures on July 9, 2004 and bears an interest rate of the bank's prime rate plus 0.9% per annum to be adjusted daily. The Company has \$525,000 available under its credit agreement as of September 30, 2003. The new working capital facility will continue to be used to provide on-going capital to fund the implementation of new contracts and general corporate operations.

The Company's future profitability, liquidity and capital requirements will depend upon numerous factors, including the success of its product offerings and competing market developments. The Company has not yet achieved, and may never achieve, profitable operations. In December 2000, the Company signed a five-year contract with CVS Pharmacy, Inc., a major retail chain consisting of over 4,100 locations that sell a version of the Company's Gold Card at their pharmacy counters to individuals who lack pharmacy and/or other health benefits. The Company executed a three-year contract with State Farm Mutual Automobile Insurance Company in April 2002 with implementation beginning in July 2002. In December 2002, the Company signed separate three-year contracts with four subsidiaries of an insurance holding company. The Company also executed a two-year contract in July of 2003 with an international manufacturer and marketer of unique home, health and personal care products. The manufacturer and marketer will sell a version of the Company's Gold Card to their customers. The Company intends to fund its ongoing development and operations through a combination of sales through these three existing contracts and potential new contracts.

The Company expects to be profitable in its second fiscal quarter of 2004 if its pipeline business closes and comes on stream on the dates anticipated and at the expected implementation costs. Alliance is still an emerging company and very sensitive to the timing of new business implementations and staying within their implementation budgets.

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.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

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

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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, 2003 and 2002

Statements of Operations for the years ended September 30, 2003 and 2002

Statements of Stockholders' Equity for the years ended September 30, 2003 and 2002

Statements of Cash Flows for the years ended September 30, 2003 and 2002

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, 2003 and 2002, 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 auditing standards generally accepted in the 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, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 3 to the financial statements, the Company's significant operating losses and lack of equity raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 3. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Miller Ray & Houser, LLP

Atlanta, Georgia

November 25, 2003

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

	<u>September 30,</u>	
	<u>2003</u>	<u>2002</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 249,831	\$ 1,175,945
Accounts receivable, net	1,402,817	908,259
Prepaid expenses and other current assets	154,772	536,830
	<u>1,807,420</u>	<u>2,621,034</u>
Furniture and equipment, net	75,709	38,778
Other assets	10,249	10,249
	<u>1,893,378</u>	<u>\$ 2,670,061</u>
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 1,680,877	\$ 1,305,228
Accrued salaries and benefits	248,239	115,153
Deferred revenue	1,837,532	1,678,870
Other accrued liabilities	149,360	117,656
Notes payable	176,951	654,172
Current portion of capital lease obligations	4,076	11,193
	<u>4,097,035</u>	<u>3,882,272</u>
Capital lease obligations	174	4,250
Commitments		
Stockholders' equity:		
Common stock, \$.001 par value; 100,000,000 shares authorized; 4,474,263 shares issued and outstanding at September 30, 2003 and 4,428,896 shares issued and outstanding at September 30, 2002	2,273	2,227
Additional paid-in-capital	2,848,027	2,792,907
Accumulated deficit	(5,054,131)	(4,011,595)
	<u>(2,203,831)</u>	<u>(1,216,461)</u>
Total liabilities and stockholders' equity	<u>\$ 1,893,378</u>	<u>\$ 2,670,061</u>

See accompanying notes and report of independent accountants.

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

	Twelve Months Ending	
	September 30,	
	2003	2002
Net revenues	\$ 4,294,671	\$ 1,384,830
Direct costs	2,662,398	1,023,792
Gross profit	1,632,273	361,038
Marketing and sales expenses	1,309,829	623,340
General and administrative expenses	1,451,341	1,350,575
Operating loss	(1,128,897)	(1,612,877)
Other income (expense):		
Other	112,750	
Interest expense	(26,389)	(19,934)
	86,361	(19,934)
Net loss	\$ (1,042,536)	\$ (1,632,811)
Per share data:		
Basic loss	\$ (0.23)	\$ (0.39)
Diluted loss	\$ (0.23)	\$ (0.39)
Basic and diluted weighted average shares outstanding	4,454,460	4,179,405

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>Deficit</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Paid-In</u>	<u>Accumulated</u>	<u>Stockholders</u>
			<u>Capital</u>		<u>Equity</u>
Balance at September 30, 2001	3,945,919	\$ 1,747	\$ 2,117,772	\$ (2,378,784)	\$ (259,265)
Sale of stock (\$1.50 per share), net of offering costs	425,687	423	635,026		635,449
Stock options and warrants exercised	20,290	20	4,646		4,666
Stock purchased 10/15/01	(3,000)	(3)	(4,497)		(4,500)
Stock issued 09/12/02	40,000	40	39,960		40,000
Net loss				(1,632,811)	(1,632,811)
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				(1,042,536)	(1,042,536)
Balance at September 30, 2003	4,474,263	\$ 2,273	\$ 2,848,027	\$ (5,054,131)	\$ (2,203,831)

See accompanying notes and report of independent accountants.

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

	For The Year Ending	
	September 30,	
	2003	2002
Cash flows from operating activities		
Net loss	\$ (1,042,536)	\$ (1,632,811)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	22,999	21,348
Stock issued in connection with employment services		40,000
Change in operating assets and liabilities:		
Accounts receivable	(494,558)	(848,274)
Prepaid expenses and other assets	382,058	(527,604)
Accounts payable	375,649	1,250,365
Accrued wages	133,086	78,811
Other accrued expenses	190,366	1,671,215
Net cash (used in) provided by operating activities	(432,936)	53,050
Cash flows from investing activities		
Purchase of equipment	(59,930)	(27,251)
Net cash used in investing activities	(59,930)	(27,251)
Cash flows from financing activities		
Repayments (borrowings) from short-term debt	(477,221)	349,172
Sale of stock and other issuances	55,166	635,615
Repayments of capital lease obligations	(11,193)	(10,272)
Net cash (used in) provided by financing activities	(433,248)	974,515
Net (decrease) increase in cash	(926,114)	1,000,314
Cash at beginning of period	1,175,945	175,631
Cash at end of period	\$ 249,831	\$ 1,175,945

See accompanying notes and report of independent accountants.

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Alliance HealthCard, Inc.

Notes to Financial Statements

September 30, 2003 and 2002

1. Description of the Business

Alliance HealthCard, Inc. (the Company) was organized on September 30, 1998 and specializes in creating, marketing and distributing value added healthcare savings programs, services, and products through provider networks at discounts to patients for services not covered by their health insurance. The Company was formed as a limited liability corporation and was reorganized into a Georgia corporation in February 1999.

2. Summary of Significant Accounting Policies

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 range 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).

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.

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Alliance HealthCard, Inc.

Notes to Financial Statements, Continued

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 \$3,000 for the year ended September 30, 2003 and \$391 for the year ended September 30, 2002. The bad debt expense was \$2,609 and \$0 for years ended September 30, 2003 and 2002, 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 large employers 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.

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.

3. Going Concern and Management's Plan

The Company's future profitability, liquidity and capital requirements will depend upon numerous factors, including the success of its product offerings and competing market developments. The Company has not yet achieved, and may never achieve, profitable operations. In December 2000, the Company signed a five-year contract with CVS Pharmacy, Inc., a major retail chain consisting of over 4,100 locations that sell a version of the Company's Gold Card at their pharmacy counters to individuals who lack pharmacy and/or other health benefits. The Company executed a three-year contract with State Farm Mutual Automobile Insurance Company in April 2002 with implementation beginning in July 2002. In December 2002, the Company signed separate three-year contracts with four subsidiaries of an insurance holding company. The Company also executed a two-year contract in July of 2003 with an international manufacturer and marketer of unique home, health and personal care products. The manufacturer and marketer will sell a version of the Company's Gold Card to their customers. The Company intends to fund its ongoing development and operations through a combination of sales through these four existing contracts and potential new contracts.

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Alliance HealthCard, Inc.

Notes to Financial Statements, Continued

3. Going Concern and Management's Plan (Continued)

As shown in the Company's financial statements, the Company incurred a net loss of \$1,042,536 during the year ended September 30, 2003 and as of that date, the Company's current liabilities exceeded its current assets by \$2,289,615 and its total liabilities exceeded its total assets by \$2,203,831. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

The Company expects to be profitable in its second quarter of 2004 if its pipeline business closes and comes on stream on the dates anticipated and at the expected implementation costs. Alliance is still an emerging company and very sensitive to the timing of new business implementations and staying on their implementation budgets. Management has prepared a contingency plan to address the impact of delayed or more costly new product and/or contract implementations if such events were to occur.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern; they do not include adjustments relating to the recoverability of recorded asset amounts and classifications of recorded assets and liabilities.

4. Notes Payable

On May 17, 2000 the Company 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. On May 22, 2003 the Company extended its 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 who received common stock options in exchange for their guaranties. 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 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 matures on July 9, 2004 and bears an interest rate of the bank's prime rate plus 0.9% per annum to be adjusted daily. The Company has \$525,000 available under its credit agreement as of September 30, 2003. 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 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 unpaid principal balance on the promissory note was \$51,751 at September 30, 2003.

Table of Contents**Alliance HealthCard, Inc.***Notes to Financial Statements, Continued***5. Furniture and Equipment**

Furniture and equipment consists of the following at September 30, 2003 and 2002:

	<u>September 30,</u>	
	<u>2003</u>	<u>2002</u>
Furniture	\$ 12,023	\$ 12,023
Equipment	96,758	40,449
Equipment under capital leases	18,865	32,226
	<u>127,646</u>	<u>84,698</u>
Less: accumulated depreciation and amortization	(51,937)	(45,920)
	<u>\$ 75,709</u>	<u>\$ 38,778</u>

6. 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 salary expense of \$40,000 for the year ended September 30, 2002 paid to an employee, other than an officer, in the form of Common Stock. The Company granted certain officers and board members options to purchase 300,000 shares of Common Stock at \$1.50 per share in return for their personal guaranties on the Company's line of credit for the year ending 2002. (See Liquidity and Capital Resources.)

7. Stock Options

In conjunction with certain employment and consulting agreements, the Company granted stock options relating to 149,500 shares of Common Stock for the year ending September 30, 2003 and 60,000 shares of Common Stock for the year ending September 30, 2002. The Company granted certain board members stock options relating to 350,000 shares of Common Stock during the year ended September 30, 2002. The

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Company has reserved 1,200,000 shares of the Common Stock in connection with the stock option plan and 856,691 warrants related to the line of credit guarantee for SunTrust Bank 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.

Table of Contents**Alliance HealthCard, Inc.***Notes to Financial Statements, Continued***7. Stock Options (Continued)**

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, 2003 and September 30, 2002.

	September 30,	
	2003	2002
Expected volatility	.01	.01
Dividend yield	0%	0%
Risk free interest rate	1.3%	1.5%
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 loss for the year ending September 30, 2003 and for the year ending September 30, 2002, as determined using the fair value method of accounting of Statement 123, was \$1,097,149 and \$1,642,592 respectively.

Information regarding the options is as follows:

	Weighted	Options	Options
	Average		
	Exercise	Outstanding	Exercisable
	Price		
Balance, September 30, 2001	.79	912,400	674,840
Granted	1.48	360,000	
Forfeited			
Became exercisable	.98		463,520
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

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Balance, September 30, 2003	1,402,900	1,295,213
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The aggregate fair value of options granted for the year ending September 30, 2003 and for the year ending September 30, 2002 was \$226,735 and \$218,113 respectively. The following table summarizes information about stock options outstanding at September 30, 2003.

	September 30,	
	2003	2002
Range of exercise price	\$0.23-\$1.50	\$0.23-\$1.50
Number outstanding	1,402,900	1,272,400
Weighted average remaining contractual life	7.4 Years	8.2 Years
Weighted average exercise price	\$0.96	\$0.97

During the year ending September 30, 2003, there were no options exercised during this period.

Table of Contents**Alliance HealthCard, Inc.***Notes to Financial Statements, Continued***8. Income Taxes**

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,	
	2003	2002
Deferred tax assets:		
Net operating loss carry forwards	\$ 1,231,953	\$ 880,702
Other	(3,601)	2,707
Gross deferred tax asset	1,228,352	883,409
Less valuation allowance	(1,228,352)	(883,409)
Net deferred tax assets	\$	\$

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

	September 30,	
	2003	2002
Deferred		
Federal	\$ 1,044,099	\$ 750,898
State	184,253	132,511
Total income tax benefit	1,228,352	883,409
Less valuation allowance	(1,228,352)	(883,409)
	\$	\$

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

Expires 2019	\$ 454,194
Expires 2020	825,874
Expires 2021	985,235
Expires 2022	893,551
	<hr/>
	\$ 3,158,854
	<hr/>

Table of Contents**Alliance HealthCard, Inc.***Notes to Financial Statements, Continued***9. Related Party Transactions**

The Company subleases its office space from an affiliated company. The Company's office consists 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 \$106,847 and \$75,857 for the years ending September 30, 2003 and September 30, 2002 respectively. The sublease was executed on April 1, 2002 and terminates 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 \$16,514 and \$18,475 from NovaNet, Inc. for expenses paid on their behalf for the years ended September 30, 2003 and 2002 respectively.

The Company paid approximately \$281,488 and \$9,075 for the years ending September 30, 2003 and September 30, 2002 respectively relating to printing and card member fulfillment services provided by two companies related indirectly through common ownership.

10. Equipment Leases

The Company leases certain equipment under capital leases and non-cancelable operating lease agreements that expire on various dates through 2005. At September 30, 2003, minimum annual rental commitments under capital leases with terms in excess of one year are as follows:

2003	\$
2004	4,295
2005	179
	<hr/>
Total minimum lease payments	4,474
Less: amounts representing interest	224
	<hr/>
Present value of net minimum lease payments	\$ 4,250
	<hr/>

Table of Contents**Alliance HealthCard, Inc.***Notes to Financial Statements, Continued***10. Equipment Leases (Continued)**

Assets acquired under non-cancelable capital leases consist of computer equipment with an aggregate cost of \$18,865 at September 30, 2003 and \$32,226 at September 30, 2002 and accumulated amortization of \$16,891 and \$16,783 at September 30, 2003 and September 30, 2002, respectively. Amortization of leased assets is included in depreciation expense.

11. Supplemental Cash Flows Information

The following information supplements the statements of cash flows:

	<u>2003</u>	<u>2002</u>
Cash paid for interest	\$ 23,644	\$ 16,110

12. 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 \$144,530 and \$1,157,844 at September 30, 2003 and 2002, respectively.

Concentration of credit risk with respect to accounts receivable and revenue is due to a high volume of business conducted with one customer. Approximately \$1,247,382 (89%) and \$870,334 (96%) of total accounts receivable were due from one customer as of September 30, 2003 and 2002, respectively. Approximately \$2,237,932 (52%) and \$1,047,125 (76%) of total sales were generated from the same customer for the years ending September 30, 2003 and 2002, respectively. Another customer generated revenue of approximately \$1,691,568 (39%) and \$322,649 (23%) respectively, for the years ending September 30, 2003 and 2002.

Approximately \$1,409,126 (84%) and \$1,038,675 (80%) of the total accounts payable relate to the party from which more than 89% of the Company's accounts receivable were due for the years ended September 30, 2003 and 2002, respectively.

13. Subsequent Events

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.

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The Company has not recorded the alleged expense of \$486,269 on its financial statements for the year ended September 30, 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 year ended September 30, 2003.

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

None.

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, 2003, are as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Term</u>
Robert D. Garces	54	Chairman of the Board of Directors and Chief Executive Officer	One Year
Thomas W. Kiser	40	Director and President	One Year
Robert R. Goodyear	56	Chief Operating Officer and Secretary/Treasurer	One Year
Rita W. McKeown	50	Chief Financial Officer	One Year
Howard C. Chandler, Jr. M.D.	42	Director	One Year
Larry G. Gerdes	54	Director	One Year
William Wallace, M.D.	49	Director	One Year
Richard M. Jackson	49	Director	One Year

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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.

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.

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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.

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.

William Wallace, M.D., Director

Dr. Wallace has served as Director of the Company since February 9, 2001. Dr. Wallace has spent the past twenty years involved in the business of healthcare, having co-founded a hospital company, two physician practice management companies, and three specialty managed care organizations. He has previously been an officer of two New York Stock Exchange healthcare companies, and currently leads the managed care business development activities for Perot Systems Corporation.

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.

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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, 2003.

SUMMARY COMPENSATION TABLE

Name and Principle Position	Year	Long Term Compensation						
		Annual Compensation			Awards		Payouts	
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)	Restricted	Securities	LTIP Payouts (\$)	All Other Compensation (\$)
					Stock Award(s) (\$)	Underlying Options/SARs (#)		
Robert Garces, Chairman & Chief Executive Officer	2003	97,855	35,000			50,000		
	2002	71,537				60,000		
Thomas Kiser, Director & President	2003	70,849	10,000			15,000		
	2002	77,691				60,000		
Robert Goodyear, Chief Operating Officer & Secretary/Treasurer	2003	88,000	25,000			25,000		
	2002	100,000						
Rita McKeown, Chief Financial Officer	2003	63,531	1,000			6,000		
	2002	69,992						

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, 2003 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 2003.

Name	% of Total	Expiration Date
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	Number of Securities	Options/SAR s	Exercise or Base Price	
	Underlying Options/SAR s	Granted to Employees in Fiscal Year ⁽²⁾	(\$/Share)	
	Granted (#) ⁽¹⁾			
Robert Garces ⁽³⁾	50,000	33%	\$ 1.00	January 1, 2013
Thomas Kiser ⁽⁴⁾	15,000	10%	\$ 1.00	January 1, 2013
Robert Goodyear ⁽⁵⁾	25,000	17%	\$ 1.00	January 1, 2013
Rita McKeown ⁽⁶⁾	6,000	4%	\$ 1.00	January 1, 2013

⁽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 149,500 shares to all directors, officers and employees in the twelve months ended September 30, 2003.

⁽³⁾ Mr. Garces was granted 50,000 options on January 1, 2003. These options are fully vested.

⁽⁴⁾ Mr. Kiser was granted 15,000 options on January 1, 2003. These options are fully vested.

⁽⁵⁾ Mr. Goodyear was granted 25,000 options on January 1, 2003. These options are fully vested.

⁽⁶⁾ Ms. McKeown was granted 6,000 options on January 1, 2003. These options are fully vested.

Table of Contents**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. See Stock Plans.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of September 30, 2003, 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)

	Shares of Common Stock Beneficially Owned ⁽¹⁾	% of Ownership
Robert D. Garces ⁽²⁾ 3500 Parkway Lane Suite 720 Norcross, Georgia 30092	965,800	20.3%
Thomas W. Kiser 3500 Parkway Lane Suite 720 Norcross, Georgia 30092	919,050	19.3%
Robert R. Goodyear 3500 Parkway Lane Suite 720 Norcross, Georgia 30092	168,000	3.6%
Rita W. McKeown 3500 Parkway Lane	35,400	0.8%

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Suite 720

Norcross, Georgia 30092

Howard C. Chandler, Jr. ⁽³⁾	516,600	11.4%
Larry G. Gerdes ⁽⁴⁾	236,665	5.2%
Richard Jackson ⁽⁵⁾	245,668	5.3%
William Wallace	50,000	1.1%
All directors and officers as a group	3,137,183	56.5%

⁽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 4,474,263 shares outstanding as of September 30, 2003 except for certain parties who hold presently exercisable

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options to purchase Common Stock, which are exercisable within 60 days of September 30, 2003. The percentages for those parties who hold presently exercisable options to purchase Common Stock, which are exercisable within 60 days of September 30, 2003, are based upon the sum of 4,494,263 shares plus the number of shares subject to presently exercisable options to purchase Common Stock, which are exercisable within 60 days of September 30, 2003, 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.

Prior to his appointment as a director of the Company, Jack Flowers acted as a consultant to the Company. In partial compensation for his services to the Company, the Company has agreed to grant him five year stock warrants at a nominal fee that entitled him to purchase 33,000 shares of Common Stock for \$.70 per share. Under the terms of the options the Company will be required to register the stock represented by the options should the Company register any of its securities under the Securities Act. These options will expire December 31, 2003. Mr. Flowers resigned as director of the Company on June 1, 2000.

Related Transactions

Robert Garces is a stockholder in NovaNet, Inc., the corporation from which the Company subleases its executive offices and is obtaining an access to providers of healthcare services in the State of Georgia. While the terms of these transactions have not been negotiated at arms-length, the Company believes that the terms are or will be comparable to what it could obtain in arms-length transactions.

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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.:

1. 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, 2003 and 2002

Statements of Operations for the years ended September 30, 2003 and 2002

Statements of Stockholders' Equity for the years ended September 30, 2003 and 2002

Statements of Cash Flows for the years ended September 30, 2003 and 2002

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, 2003.

(c) Exhibits

Exhibit 31.1 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

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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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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.

January 9, 2004

By:

/s/ ROBERT D. GARCES

Robert D. Garces

Chairman and Chief Executive Officer

(Principal Executive Officer)

January 9, 2004

By:

/s/ RITA McKEOWN

Rita McKeown

Chief Financial Officer

(Principal Financial and Accounting Officer)