ALLIANCE HEALTHCARD INC
Form 10KSB
December 20, 2006

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, 2006

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ______ to ______

Commission File Number 0001087216

Alliance HealthCard, Inc.

(Exact name of registrant as specified in its charter)

GEORGIA	**58-2445301**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

3500 Parkway Lane, Suite 720, Norcross, GA 30092

(Address of principal executive offices and zip code)

Registrant s telephone number, including area code: (770) 734-9255

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. x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes ¨ No x

Registrant s revenues for the fiscal year ended September 30, 2006 were $3,320,824.

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 November 27, 2006 was $2,488,345.

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

Class	**Outstanding at November 27, 2006**
Common Stock, $.001 par value	4,524,263

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

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) 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 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:

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 who have little or no insurance, or those who only have 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

Alliance Dental Plans Card

This specialized plan offers dental and pharmacy benefits and provides 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.

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, a per member per month fee 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	60,000 CIGNA 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
Physical Therapy	1,000 physical therapy and rehabilitation facilities
Diabetes Supplies	15 percent discount
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 provides 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 46.6 million individuals, were without health insurance coverage in 2005. [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 high cost or limited 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.

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 program;

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

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.

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 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 limited 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 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.

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, require a specialized means of distribution. Alliance provides a wide degree of flexibility to its distribution partners in both product design and network services.

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.

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 heath 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 such as 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, in which 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 can mean life-long savings for consumers.

Direct Sales Model

The Gold and Platinum Cards are Alliance s principal consumer-oriented products and are issued through 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.

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.

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 two full-time sales professionals and retains a number of independent sales consultants, who are compensated solely on the basis of actual sales closed.

We continue to expand our marketing programs and visibility in the industry. Programs currently underway include targeted public relations, internet sales, direct mailings and industry meetings.

Physician-Issued Pharmacy Cards

During 2005, Alliance began offering physicians the opportunity to issue free pharmacy benefit cards to their uninsured patients who leave the office with a prescription. The initial target has been 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. A pilot program has begun in the Atlanta area and will expand to other high-density Hispanic populations thereafter.

Employer Benefits Programs

Alliance s outbound sales call efforts have intensified on companies that have 500 or more employees and a significant workforce of non-benefit part-time employees. Alliance is targeting service industry companies with non-union workers primarily in the retail and food industry sectors. The Company is offering the 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.

Revenues are generated by group membership payments and pharmacy rebate transactions.

CUSTOMERS

The Company executed two new contracts during the fiscal year ended September 30, 2006. In addition to the new contracts for 2006, contracts are still in force for the following customers: a) CVS Pharmacy, Inc., a major retail chain consisting of over 6,000 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, which sells a version of the Company s Gold Card to their customers.

Two of our customers contributed 68% of the Company s revenue for 2006. 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 New Benefits and CAREINGTON International Corporation. 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. However, there are several states that now licensing laws and regulations for discount medical provider organizations (hereinafter referred to as DMPO). The regulations often differ materially among states and within individual states and are subject to amendment and reinterpretation by the agencies charged with their enforcement. There are approximately 13 states that require a license to operate as a DMPO. The Company has been approved as a licensed DMPO in 8 states and has 5 applications pending for the remaining states. As the Company becomes subject to additional licensing and 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 28, 2006, the Company employed 17 individuals on a full-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 leases the space for its office in Norcross, Georgia under a lease that expires in October 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 8,712 square feet and NovaNet leases approximately 3,537 square feet of that space. The lease was executed on May 1, 2004, amended on December 16, 2004 with a revised termination date of October 31, 2009. 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.

As of December 22, 2005, Alliance has entered into a Mutual Release and Settlement Agreement with Medco for a full settlement and release of all claims in exchange for a settlement payment to Medco of $200,000. A payment of $200,000 was made on December 23, 2005. A final settlement and release of all claims related to this dispute was obtained on December 29, 2005. The Company has recorded other expense of $169,574 on its financial statements for the year ended September 30, 2005, to reflect this settlement payment. The remaining expense of $30,426 had been recorded in prior periods.

On December 14, 2005, Bankers Fidelity Life Insurance Company filed a demand for arbitration with Alliance HealthCard, Inc. The dispute is about the relative rights of the parties arising out of the Prescription Drug Card and Multi-Service Benefits Agreement entered into by Bankers Fidelity Life Insurance Company and Alliance HealthCard, Inc. It involves a determination of the responsibilities of Alliance HealthCard, Inc., as well as certain other contract rights between the parties hereto.

Bankers Fidelity Life Insurance Company seeks the following relief: (1) payment by Alliance HealthCard, Inc. for prescriptions purchased by an Rx Card Holder or a Basic Card Holder; (2) full and complete copies of the following Reports: Utilization Summary; Customer Inquiry Report, Cancellation Report, and Membership Information Report; and (3) damages for fraud. The dollar amount of the claim sought is $75,000. Other relief sought includes attorneys fees, interest and arbitration costs.

The Company intends to vigorously defend all claims made by Bankers Fidelity Life Insurance Company. The Demand for Arbitration is still in the discovery stage and therefore it is not possible at this time to determine the outcome of the actions or the effect, if any, that their outcome may have on the Company s results of operations and financial condition. There can be no assurances that this litigation will not have a material adverse effect on the Company s results of operations and financial condition.

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, 2006.

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 October 23, 2006 there were 135 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. 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, 2006		
First Quarter ended December 31, 2005	$ 1.01	$ 0.77
Second Quarter ended March 31, 2006	$ 1.01	$ 0.80
Third Quarter ended June 30, 2006	$ 0.85	$ 0.72
Fourth Quarter ended September 30, 2006	$ 0.85	$ 0.55
Year ended September 30, 2005		
First Quarter ended December 31, 2004	$ 1.00	$ 0.40
Second Quarter ended March 31, 2005	$ 0.85	$ 0.72
Third Quarter ended June 30, 2005	$ 0.95	$ 0.50
Fourth Quarter ended September 30, 2005	$ 0.77	$ 0.50

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.

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.

Results of Operations

Year Ended September 30, 2006 Compared to Year Ended September 30, 2005

Net revenues for the company decreased $270,794 to $3,320,824 for the year ending September 30, 2006, from $3,591,618 for the same prior year period. The change is primarily attributable to a decline of $393,581 related to a decline in membership cards for the CVS, State Farm and dental program contracts. This was slightly offset by an increase in the Rx transaction revenues of $122,787 due to the addition of two new pharmacy benefit manager contracts implemented in the quarter ended December 31, 2005.

Gross profit decreased $248,901 to $2,092,763 for the year ended 2006 from $2,341,664 for the same prior year. The decrease in gross profit was primarily attributable to a decline in revenue for the CVS, State Farm and dental program contracts.

Marketing and sales expenses increased $66,081 to $255,502 for the year ending September 30, 2006, from $189,421 for the year ending September 30, 2005. The increase is a result of: a) an increase for commission expense of $44,138 resulting from higher commission rates for two new broker agreements executed in 2006 b) an increase of $25,333 in salary expense due to a change in sales personnel; c) a decline in other expenses of $3,390.

General and administrative expenses decreased $57,679 to $1,338,821 for the year ending September 30, 2006 from $1,396,500 in the prior year. This is attributable to a decline in general office expenses related to phone, depreciation and other general expenses.

Other income (expense) decreased $121,602 for the year ending September 30, 2006, as a result of the following: (a) a decrease in other income of $75,000 related to bad debt recovery for the prior year; (b) a decline in other expense of $187,286 for the prior year for the Medco Health Solutions, Inc., settlement and pending litigation for Bankers Fidelity (see Item 3 Legal Proceedings); and (c) an increase for interest income of $9,316 for the current year.

The Company recognized a deferred tax benefit of $83,500 for the year ended September 30, 2006 compared to $175,500 for the prior year as a result of the net operating loss carryforwards.

The Company reported net income of $596,688 in 2006 compared to $824,389 for the prior year. The decrease in net income is primarily attributable to the decline in revenues and the deferred tax benefit for the year ended September 30, 2006.

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 $142,916 for the year ended September 30, 2006, primarily as a result of the following: (a) net income of $596,688; (b) other adjustments to reconcile net income to net cash of $21,410 for depreciation expense, and an increase in a deferred tax asset of $83,500; (c) a decrease in accounts receivable of $81,366 due to net changes in several customer account balances; (d) a decrease in accrued wages of $35,394 attributable to the payment of bonuses for the year ended September 30, 2005, and the repayment of deferred salaries initiated in 2003; (e) a decrease in deferred revenue of $209,784 attributable to the decline of deferred revenue for the CVS and State Farm contracts; (f) a decrease in other liabilities of $206,763 primarily related to the Medco settlement finalized in December, 2005; (g) a decrease in accounts payable of $20,162, and (h) an increase in prepaid expenses of $945.

The Company s net working capital increased $616,598 to $(48,061) during the 12 months ended September 30, 2006 from $(664,659) at September 30, 2005. The increase in working capital was attributable to the following: (a) an increase in cash of $141,416 attributable to the Company s net income of $596,688; (b) an increase in deferred tax assets of $83,500 based on a reduction of the deferred tax asset valuation in the amount of $174,949; (c) an increase in other assets of $945; (d) a decrease in accounts receivable of $81,366; (e) a decrease in deferred revenue of $209,784 attributable to the CVS and State Farm contracts (f) a decrease in accrued wages of $35,394 due to the payment of bonuses for the year ended September 30, 2005 and the re-payment of deferred salaries for the year ended September 30, 2006; (g) a decrease in other accrued expenses of $206,763 related to the Medco settlement; and (h) a decrease in accounts payable of 20,162.

The Company s investing activities during the year ended September 30, 2006, used cash of $1,500 for capital expenditures for computers and equipment for additional personnel and card fulfillment administration.

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.

ITEM 7. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following financial statements are filed with this report:

Report of Independent Accountants

Consolidated Balance Sheets as of September 30, 2006 and 2005

Consolidated Statements of Operations for the years ended September 30, 2006 and 2005

Consolidated Statements of Stockholders Equity for the years ended September 30, 2006 and 2005

Consolidated Statements of Cash Flows for the years ended September 30, 2006 and 2005

Notes to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of

Alliance HealthCard, Inc.

We have audited the accompanying consolidated balance sheets of Alliance HealthCard, Inc. and subsidiary, as of September 30, 2006, and 2005, and the related consolidated statements of income, stockholders equity and comprehensive income, and cash flows for the years 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. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Alliance HealthCard, Inc. and subsidiary as of September 30, 2006, and 2005, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Miller Ray Houser & Stewart LLP

Atlanta, Georgia

December 15, 2006

Alliance HealthCard, Inc. & Subsidiary

Consolidated Balance Sheets

	September 30, 2006	2005
Assets		
Current assets:		
Cash and cash equivalents	$ 1,102,807	$ 961,391
Accounts receivable, net	251,133	332,499
Deferred tax asset	259,000	175,500
Prepaid expenses and other current assets	28,983	28,038
Total current assets	1,641,923	1,497,428
Furniture and equipment, net	2,269	22,179
Other assets	39,637	39,637
Total assets	$ 1,683,829	$ 1,559,244
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	$ 398,106	$ 418,268
Accrued salaries and benefits	58,517	93,911
Deferred revenue	1,050,194	1,259,978
Other accrued liabilities	183,167	389,930
Total current liabilities	1,689,984	2,162,087
Commitments		
Stockholders equity:		
Common stock, $.001 par value; 100,000,000 shares authorized; 4,524,263 shares issued and outstanding at September 30, 2006 at September 30, 2005	2,323	2,323
Additional paid-in-capital	2,882,977	2,882,977
Accumulated deficit	(2,891,455)	(3,488,143)
Total stockholders equity (deficit)	(6,155)	(602,843)
Total liabilities and stockholders equity	$ 1,683,829	$ 1,559,244

See accompanying notes and report of independent accountants.

Alliance HealthCard, Inc. & Subsidiary

Consolidated Statements of Operations

	Twelve Months Ending September 30, 2006	2005
Net revenues	$ 3,320,824	$ 3,591,618
Direct costs	1,228,061	1,249,954
Gross profit	2,092,763	2,341,664
Marketing and sales expenses	255,502	189,421
General and administrative expenses	1,338,821	1,396,500
Operating income	498,440	755,743
Other income (expense):		
Other income	14,748	80,432
Other expense		(187,286)
	14,748	(106,854)
Net income before income taxes	513,188	648,889
Deferred tax benefit	83,500	175,500
Net income	$ 596,688	$ 824,389
Per share data:		
Basic income	$ 0.13	$ 0.18
Diluted income	$ 0.13	$ 0.18
Basic weighted average shares Outstanding	4,524,263	4,524,263
Diluted weighted average shares Outstanding	4,667,757	4,638,692

See accompanying notes and report of independent accountants.

Alliance HealthCard, Inc. & Subsidiary

Consolidated Statements of Stockholders Equity

	Common Stock		Additional		Total
			Paid-In	Deficit	Stockholders
	Shares	Amount	Capital	Accumulated	Equity
Balance at September 30, 2004	4,524,263	$ 2,323	$ 2,882,977	$ (4,312,532)	$ (1,427,232)
Net income				824,389	824,389
Balance at September 30, 2005	4,524,263	2,323	2,882,977	(3,488,143)	$ (602,843)
Net income				596,688	596,688
Balance at September 30, 2006	4,524,263	$ 2,323	$ 2,897,724	$ (2,891,455)	$ (6,155)

See accompanying notes and report of independent accountants.

Alliance HealthCard, Inc. & Subsidiary

Consolidated Statements of Cash Flows

	For The Year Ending September 30, 2006	2005
Cash flows from operating activities		
Net income	$ 596,688	$ 824,389
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	21,410	31,057
Deferred tax benefit	(83,500)	(175,500)
Change in operating assets and liabilities:		
Accounts receivable	81,366	(42,633)
Prepaid expenses and other assets	(945)	(23,918)
Accounts payable	(20,162)	(38,475)
Accrued salaries and benefits	(35,394)	(137,553)
Deferred revenue	(209,784)	(167,315)
Other accrued liabilities	(206,763)	234,815
Net cash provided by operating activities	142,916	504,867
Cash flows from investing activities		
Purchase of equipment	(1,500)	(1,121)
Net cash used in investing activities	(1,500)	(1,121)
Cash flows from financing activities		
Repayments of lease obligations		(203)
Net cash used in financing activities		(203)
Net increase in cash	141,416	503,543
Cash at beginning of period	961,391	457,848
Cash at end of period	$ 1,102,807	$ 961,391

See accompanying notes and report of independent accountants.

Alliance HealthCard, Inc. & Subsidiary

Notes to Consolidated Financial Statements

September 30, 2006 and 2005

1. Description of the Business

Alliance HealthCard was founded in September 1998 and is a national health-care savings organization that creates, markets, and distributes membership savings programs to predominantly underserved markets where individuals either have limited health benefits, or no insurance. Programs encompass services in more than 16 areas of health care, including physician visits, hospital stays, chiropractics, vision, dental, pharmacy, hearing and patient advocacy. These markets may vary widely, from senior populations with Medicare to part-time employees and the uninsured looking for lower cost medical services and access to providers.

2. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Alliance HealthCard of Florida, Inc. The subsidiary was formed to comply with the State of Florida regulations for discount health card organizations. All intercompany accounts and transactions have been eliminated in consolidation.

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.

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.

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.

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 allowance for doubtful accounts was $21,501 for the year ended September 30, 2006 and $34,876 for the year ended September 30, 2005. The bad debt expense was $0 for the years ended September 30, 2006 and 2005, respectively.

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.

Alliance HealthCard, Inc. & Subsidiary

Notes to Consolidated Financial Statements, Continued

Stock Options

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

The provisions of SFAS 123R became generally accepted accounting principles on January 1, 2006. As permitted, prior to the effectiveness of SFAS 123R, the Company elected to adopt only the disclosure provisions of SFAS No. 123, Accounting for Stock-based Compensation (see Note 5 below).

Income Taxes

The Company has 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.

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. Membership fees paid in advance on an annual basis are recognized monthly over the applicable twelve-month membership term.

Advertising Expense

The Company s advertising is non-direct and the costs are expensed as incurred. During the years ended September 30, 2006 and 2005, the Company incurred $6,465 and $10,264 of advertising expense, respectively.

2. Notes Payable

The Company secured a working capital facility on July 10, 2003 with Branch Banking And Trust Company. The agreement provided 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 did not renew the credit agreement in 2005.

Alliance HealthCard, Inc. & Subsidiary

Notes to Consolidated Financial Statements, Continued

3. Furniture and Equipment

Furniture and equipment consists of the following at September 30, 2006 and 2005:

	September 30, 2006	2005
Furniture	$ 12,023	$ 12,023
Equipment	110,265	108,765
Equipment under capital leases	18,865	18,865
	141,153	139,653
Less: accumulated depreciation and amortization	(138,884)	(117,474)
	$ 2,269	$ 22,179

4. Stockholders Equity

The Company did not issue any stock options for the years ended September 30, 2006 and 2005.

5. Stock Options

Effective January 1, 2006, the Company adopted SFAS No. 123 (revised 2004), Share-based payment (SFAS 123R). The provisions of SFAS 123R require companies to expense in their financial statements the estimated fair value of awarded stock options after the effective date. The Company adopted this statement using the modified prospective application. For options granted and vested prior to the effective date, the Company continues to follow the intrinsic value method set forth in Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees (APB No. 25), and disclose the pro forma effects on net income had the fair value of these options been expensed.

The fair value of each option award is estimated on the date of grant using the Black-Scholes-Merton option-pricing model using the assumptions noted in the following table. Expected volatilities are base on historical volatilities of the Company s stock. The Company uses historical data to estimate expected term and option forfeitures within the valuation model. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The Company does not provide for any expected dividends or discount for post-vesting restrictions in the model.

	September 30, 2006	2005
Expected volatility	.1	.1
Dividend yield	0%	0%
Risk free interest rate	4.9%	4.3%
Expected lives	5 Years	5 Years

Alliance HealthCard, Inc. & Subsidiary

Notes to Consolidated 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, 2004		1,868,895	1,782,900
Granted	.00		
Forfeited	.88	(100,999)	(50,000)
Became exercisable	1.10		13,338
Balance, September 30, 2005		1,767,896	1,746,238
Granted	.00		
Forfeited	1.01	(1,000)	(334)
Became exercisable	1.10		12,996
Balance, September 30, 2006		1,766,896	1,758,900

There were not any options granted for the years ending September 30, 2006 and September 30, 2005. The following table summarizes information about stock options outstanding at September 30, 2006.

	September 30, 2006	2005
Range of exercise price	$0.23-$1.50	$0.23 - $1.50
Number outstanding	1,766,896	1,767,896
Weighted average remaining contractual life	5.2 Years	6.2 Years
Weighted average exercise price	$0.89	$0.89

During the year ending September 30, 2006, no options were exercised.

For options granted and vested prior to the effective date, the Company continues to follow the intrinsic value method set forth in Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees (APB No. 25), but disclose the pro forma effects on net income had the fair value of these options been expensed. The Company s pro forma net income for the years ending September 30, 2006 and 2005, as determined using APB Opinion No.25 was $567,197 and $769,693, respectively.

6. Income Taxes

There was no current income tax expense recorded in the statements of operations for the period ending September 30, 2006 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.

Alliance HealthCard, Inc. & Subsidiary

Notes to Consolidated Financial Statements, Continued

6. Income Taxes (Continued)

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 approximately an 67% valuation allowance for its net deferred tax assets based on the increased likelihood that the Company will have taxable income to utilize the net deferred asset in future years. The benefit created as a result of the reduction of the valuation allowance is $259,000.

	2006	2005
Reconciliation of Tax Rates:		
Federal	34%	34%
State	5%	5%
Net operating loss carryforwards	(6)%	(8)%
Valuation allowance	(33)%	(31)%
Effective tax rate	0%	0%

	September 30, 2006	September 30, 2005
Deferred tax assets:		
Net operating loss carry forwards	$ 775,746	$ 890,648
Other	8,676	(14,777)
Gross deferred tax asset	784,422	875,871
Less valuation allowance	(525,422)	(700,371)
Net deferred tax assets	$ 259,000	$ 175,500

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

	September 30, 2006	September 30, 2005
Deferred		
Federal	$ 72,800	$ 153,000
State	10,700	22,500
Total income tax benefit	$ 83,500	$ 175,500

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

Expires 2020	100,696
Expires 2021	985,235
Expires 2023	902,846
Expires 2025	316

$ 1,989,093

Alliance HealthCard, Inc. & Subsidiary

Notes to Consolidated Financial Statements, Continued

7. Related Party Transactions

The Company leases the space for its office in Norcross, Georgia under a lease that expires in October 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 8,712 square feet and NovaNet leases approximately 3,902 square feet of that space. The lease was executed on May 1, 2004, amended on December 16, 2004 with a revised termination date of October 31, 2009. The Company s share of the minimum future rental payments due under the non-cancelable operating lease arrangement is as follows:

Year Ending September 30,	Amount
2007	93,505
2008	95,843
2009	98,233
Thereafter	8,203
Total	$ 295,784

The Company s rent expense was approximately $69,823 and $81,997 for the years ending September 30, 2006 and September 30, 2005 respectively.

Accounts receivable includes $5,206 and $5,813 from NovaNet, Inc. for expenses paid on their behalf for the years ended September 30, 2006 and 2005 respectively.

The Company paid approximately $9,674 and $98,605 for the years ending September 30, 2006 and September 30, 2005 respectively relating to printing and card member fulfillment services provided by one company related indirectly through common ownership.

8. Equipment Leases

The Company leased certain equipment under capital leases that expired in 2005. As of September 30, 2005 all capital leases had been paid in full. The Company did not enter into any new lease agreements for the year ended September 30, 2006.

Assets acquired under non-cancelable capital leases consist of computer equipment with an aggregate cost of $18,865 at September 30, 2005 and at September 30, 2004 and accumulated amortization of $18,865 at September 30, 2005 and September 30, 2004. Amortization of leased assets is included in depreciation expense.

9. Supplemental Cash Flows Information

The company did not incur any interest expense for the years ended September 30, 2006 and September 30, 2005.

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 $760,285 and $654,405 at September 30, 2006 and 2005, respectively.

Alliance HealthCard, Inc. & Subsidiary

Notes to Consolidated Financial Statements, Continued

10. Concentration of Credit Risk Arising (Continued)

Concentration of credit risk with respect to accounts receivable and revenue is due to a high volume of business conducted with two customers. Approximately $131,104 (60%) and $131,716 (46%) of total accounts receivable were due from two customers as of September 30, 2006 and 2005, respectively. Approximately $2,255,130 (68%) and $2,566,081 (71%) of total sales were generated from the same two customers for the years ending September 30, 2006 and 2005, respectively. Approximately $362,841 (91%) and $362,841 (87%) of the total accounts payable relate to the party from which more than 25% and 29% of the Company s accounts receivable were due for the years ended September 30, 2006 and 2005, respectively.

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 years ended September 30, 2006 and 2005.

12. Selected Quarterly Financial Data (Un-audited)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2006				
Revenue	$ 890,848	$ 837,741	$ 803,067	$ 789,168
Gross profit	$ 595,926	$ 526,684	$ 497,227	$ 472,926
Net income	$ 216,974	$ 100,390	$ 55,227	$ 224,097
Diluted net income per share	$ 0.05	$ 0.02	$ 0.01	$ 0.05
2005				
Revenue	$ 898,747	$ 876,940	$ 899,365	$ 916,566
Gross profit	$ 584,650	$ 556,104	$ 620,087	$ 580,823
Net income	$ 174,766	$ 143,472	$ 215,479	$ 290,672
Diluted net income per share	$ 0.04	$ 0.03	$ 0.05	$ 0.06

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.

Alliance HealthCard, Inc. & Subsidiary

Notes to Consolidated Financial Statements, Continued

13. Legal Proceedings (Continued)

On December 22, 2005, Alliance entered into a Mutual Release and Settlement Agreement with Medco for a full settlement and release of all claims in exchange for a settlement payment to Medco of $200,000. A payment of $200,000 was made on December 23, 2005. A final settlement and release of all claims related to this dispute was obtained on December 29, 2005. The Company has recorded other expense of $169,574 on its financial statements for the year ended September 30, 2005, to reflect this settlement payment. The remaining expense of $30,426 had been recorded in prior periods.

On December 14, 2005, Bankers Fidelity Life Insurance Company filed a Demand For Arbitration with Alliance HealthCard, Inc. The dispute is about the relative rights of the parties arising out of the Prescription Drug Card and Multi-Service Benefits Agreement entered into by Bankers Fidelity Life Insurance Company and Alliance HealthCard, Inc. It involves a determination of the responsibilities of Alliance HealthCard, Inc., as well as certain other contract rights between the parties hereto.

Bankers Fidelity Life Insurance Company seeks the following relief: (1) payment by Alliance HealthCard, Inc. for prescriptions purchased by an Rx Card Holder or a Basic Card Holder; (2) full and complete copies of the following Reports: Utilization Summary; Customer Inquiry Report, Cancellation Report, and Membership Information Report; and (3) damages for fraud. The dollar amount of the claim sought is $75,000. Other relief sought includes attorneys fees, interest and arbitration costs.

The Company intends to vigorously defend all claims made by Bankers Fidelity Life Insurance Company. The Demand for Arbitration is in the discovery stage, however, and therefore it is not possible at this time to determine the outcome of the actions or the effect, if any, that their outcome may have on the Company s results of operations and financial condition. There can be no assurances that this litigation will not have a material adverse effect on the Company s results of operations and financial condition.

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

There has been no occurrence requiring response to this item.

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, 2006, are as follows:

Name	Age	Position	Term
Robert D. Garces	57	Chairman of the Board of Directors and Chief Executive Officer	One Year
Thomas W. Kiser	43	Director and President	One Year
Rita W. McKeown	53	Chief Financial Officer, Secretary/Treasurer	One Year
Howard C. Chandler, Jr. M.D.	45	Director	One Year
Larry G. Gerdes	57	Director	One Year
Richard L. Jackson	52	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.

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.

Rita W. McKeown, Chief Financial Officer, Secretary/Treasurer

Ms. McKeown joined the Company in 2000 as the 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 has served as a Director of the Company since 1998. 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 the Chicago Board of Trade.

Richard L. Jackson, Director

Mr. Jackson has served as a Director of the Company since 1998. Mr. Jackson is currently Chief Executive Officer and Chairman of the Board 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.

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 is in the process of creating an Audit Committee and is actively searching for a person to add to the Board of Directors and the Audit Committee that meets the qualifications required of an audit committee financial expert.

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 9A. CONTROLS AND PROCEDURES

The SEC defines the term disclosure controls and procedures to mean a company s controls and other procedures that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the SEC s rules and forms. The Company s principal executive officer and principal financial officer, based on their evaluation of the effectiveness of the Company s disclosure controls and procedures as of the end of the period covered by this report, concluded that the Company s disclosure controls and procedures were effective for this purpose.

Internal control over financial reporting consists of control processes designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company s financial statements for external reporting purposes in accordance with GAAP. To the extent that components of the Company s internal control over financial reporting are included in the Company s disclosure controls, they are included in the scope of the evaluation by the Company s principal executive officer and principal financial officer referenced above. There were no significant changes in the Company s internal control over financial reporting during the Company s fourth fiscal quarter of 2006 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

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, 2006.

SUMMARY COMPENSATION TABLE

		Annual Compensation		Long Term Compensation
		Salary	Bonus	Securities Underlying Options/SARs
Name and Principle Position	**Year**	**$**	**$**	**(#)**
Robert Garces, Chairman &	2006	150,984		
	2005	170,809		
Chief Executive Officer	2004	133,339	37,500	80,000
Thomas Kiser, Director &	2006	129,899		
	2005	147,517		
President	2004	122,207	22,500	80,000
Rita McKeown, Chief	2006	83,900		
	2005	82,895		
Financial Officer, Secretary/Treasurer	2004	70,538	7,500	5,000

Options/SAR Grants in Last Fiscal Year

The Company did not grant any options or warrants to purchase Alliance HealthCard Common Stock during the twelve months ended September 30, 2006 to any of the Named Executive Officers.

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.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of September 30, 2006, 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)	1,094,600	22.2%
Thomas W. Kiser	1,020,050	20.8%
Rita W. McKeown	37,067	0.8%
Howard C. Chandler, Jr. (3)	750,100	16.1%
Larry G. Gerdes (4)	316,665	6.8%
Richard Jackson (5)	325,668	6.9%
All directors and officers as a group	3,544,150	60.5%

(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 4,524,263 shares outstanding as of September 30, 2006 except for certain parties who hold presently exercisable options to purchase Common Stock, which are exercisable within 60 days of September 30, 2006. The percentages for those parties who hold presently exercisable options to purchase Common Stock, which are exercisable within 60 days of September 30, 2006, are based upon the sum of 4,524,263 shares plus the number of shares subject to presently exercisable options to purchase Common Stock, which are exercisable within 60 days of September 30, 2006, 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 1,050 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.

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, 2006 and 2005

Statements of Operations for the years ended September 30, 2006 and 2005

Statements of Stockholders Equity for the years ended September 30, 2006 and 2005

Statements of Cash Flows for the years ended September 30, 2006 and 2005

Notes to Financial Statements

Financial Statement Schedules are not required

(b) Reports on Form 8-K.
The Company did not file a report on Form 8-K for the year ended September 30, 2006.

(c) Exhibits

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

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Audit Fees

The aggregate fees billed by Miller Ray Houser & Stewart LLP for professional services rendered for the audit of the Company s annual financial statements for the years ended September 30, 2006 and 2005 and the reviews of the financial statements included in the Company s Quarterly Reports on Form 10-Q for those years were $42,000 and $39,000 for the years ended September 30, 2006 and 2005, respectively. No person or firm other than Miller Ray Houser & Stewart LLP performed audit related services for the Company in either 2006 or 2005.

Tax Fees

The aggregate fees billed by Miller Ray Houser & Stewart LLP for professional services rendered in conjunction with federal, state and local income tax return preparation and signature in 2006 and 2005 were $1,750 and $1,500 per year, respectively.

All Other Fees

There were no other fees billed by Miller Ray Houser & Stewart LLP for the years ended September 30, 2006 and 2005.

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.

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 15, 2006	/s/ Robert D. Garces Robert D. Garces Chairman and Chief Executive Officer (Principal Executive Officer)
December 15, 2006	By: /s/ Rita McKeown Rita McKeown Chief Financial Officer (Principal Financial and Accounting Officer)