MERIDIAN HOLDINGS INC
Form 10QSB
August 22, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-QSB
Amendment Number 3

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 2006

( ) 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: 0-30018

MERIDIAN HOLDINGS,INC.
(Exact Name of Registrant as Specified in its Charter)

COLORADO	52-2133742
(State of Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

6201 BRISTOL PARKWAY, CULVER CITY, CALIFORNIA 90230
(Address of Principal Executive Offices)

(213) 627-8878
(Registrant's telephone number, including area code)

N/A
(Former name, former address and formal fiscal year, if changed since last report)

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 and, (2) has been subject to such filing requirements for the past 90 days. Yes (X) No ( )

As of June 30, 2006, Meridian Holdings, Inc., Registrant had 18,120,649 shares of its $0.001 par value common stock outstanding.

Form 10-Q
First Quarter 2006

MERIDIAN HOLDINGS, INC.

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MERIDIAN HOLDINGS, INC.
Consolidated Balance Sheets
(Unaudited)

ASSETS

	As of June 31, 2006	December 31, 2005
Current assets		
Cash and cash equivalents	$ 20,156	$ 22,525
Restricted cash	96,817	11,525
Accounts receivable, net of allowance for doubtful accounts of $ 282,454 as December 30,2005 and 299,328 as of June 30, 2006	2,370,940	2,245,848
Other current assets	7,802	7,802
Total current assets	2,495,715	2,287,701
Fixed assets, net of accumulated depreciation	8,747	16,451
Investments (Notes 3 and 12)	1,998,954	2,000,000
Total assets	$ 4,503,416	$ 4,304,152
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Account payable	301,415	309,156
Accrued payroll and other expense	363,864	307,021
Reserve for incurred but not reported claims	20,896	39,480
Line of Credit (Note 5)	46,063	50,348
Current portion of long-term debt	4,460	4,460
Total current liabilities	736,698	710,825
Long Term liabilities		
Loan from Majority Shareholder/officer (Note 11)	$132,927	60,607
Long-term debt, net of current portion	$ 34,816	35,598
Total Long Term Liabilities	167,743	96,205
Total liabilities	904,440	807,030
Commitments and contingencies		
Stockholders' equity		

Preferred stock (20,000,000 shares authorized, par value $0.001; no shares issued and outstanding)	-	-
Common stock (100,000,000 shares authorized, par value $0.001; 18,120,649 shares issued and outstanding at December 31, 2005 and June 30, 2006 respectively	18,121	18,121
Additional paid-in capital	5,823,010	5,838,010
Accumulated deficit	(2,242,154)	(2,344,008)
Total stockholders' equity	3,598,976	3,497,122
Total liabilities and stockholders' equity	$ 4,503,416	$ 4,304,152

See accompanying notes to consolidated financial statements

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MERIDIAN HOLDINGS, INC.
Condensed Consolidated Statements of Operations
(UNAUDITED)

	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Revenues				
Capitation	$ 11,553	$ 126,253	107,274	329,480
Risk Pool	177,752	60,713	177,752	179,678
Fee For Service	174,806	410,068	457,321	548,154
	364,111	597,034	742,347	1,059,034
Cost of revenues	(102,905)	(114,000)	(178,876)	(273,603)
Gross margin	261,206	483,039	563,471	783,709
Operating expenses				
General and administrative	(241,680)	(267,152)	439,313	(718,135)
Income(loss) from Operations	19,526	215,882	124,158	65,574
Other Income(expense)	(16,352)	(1,141)	(22,304)	(15,352)
Total other income(expense)	(16,955)	(1,141)	(22,304)	(15,352)
Net Income/Expense	2,571	214,741	101,854	50,222
Net income per share	$ 0.01	$ 0.03	$ 0.01	$ 0.00
Weighted average shares outstanding	18,120,649	14,370,200	18,120,650	14,370,200

See accompanying notes to consolidated financial statements

MERIDIAN HOLDINGS, INC.
Condensed Consolidated Statements of Cash Flows
(UNAUDITED)

	Six Months Ended June 30, 2006	2005
Cash flows from operating activities		
Net income/(loss)	$ 101,854	$ 50,222
Adjustments to reconcile net Loss/income to net cash used in operating activities:		
Depreciation and amortization	7,704	18,199
(Increase) decrease in:		
Restricted cash	(85,292)	(6,621)
Accounts receivable	(125,092)	(351,720)
Other current liabilities	-	3,118
Accounts payable	(8,100)	239,005
Accrued expense	56,843	80,277
Incurred but not reported reserve	(18,584)	(125,573)
Net cash used in operating activities	(70,667)	(93,093)
Cash flow from investing activities		
Acquisition of fixed assets	-	(8,917)
(increase)Decrease in investments	1,046	
Net cash used in investing activities	1,046	(8,917)
Cash flow from financing activities		
Borrowings(repayment) from majority stockholder/officer	72,319	11,314
Borrowings on long-term debt	-	-
(Repayment)Borrowing on line of credit	(4,285)	(2,749)
(Repayment)Borrowings of long term debt	(782)	(15,128)
Net cash (used in) provided by financing activities	67,252	(29,191)

Increase/(Decrease) in cash and cash equivalents	(2,369)	(131,201)
Cash and cash equivalents, beginning of period	22,525	173,628
Cash and cash equivalents, end of period	$ 20,156	42,427

See accompanying notes to consolidated financial statements

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MERIDIAN HOLDINGS, INC.

Notes to Consolidated Financial Statements

1. General

Basis of Reporting

The interim accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-QSB. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal, recurring accruals) considered necessary for a fair presentation have been included. For further information, management suggests that the reader refer to the audited financial statements for the year ended December 31, 2005 included in its Annual Report on Form 10-KSB. Operating results for the six and three-month period ended June 30 , 2006 are not necessarily indicative of the results of operations that may be expected for the year ending December 31, 2006.

Nature of Operations

Meridian Holdings, Inc. (the "Company") was incorporated under the laws of the State of Colorado on October 13, 1998. The Company is located in the City of Los Angeles, California, U.S.A. and contracts with physicians to provide health care services primarily within the area of Los Angeles County.

The Company is an acquisition-oriented holding company focused on building, operating, and managing a portfolio of business-to-business companies. It seeks to acquire majority or controlling interests in companies engaged in e-commerce, e-communication, and e-business services, which will allow the holding company to actively participate in management, operations, and finances. The Company's network of affiliated companies is designed to encourage maximum leverage of information technology, operational excellence, industry expertise, and synergistic business opportunities.

The Company also provides medical services management to its' Capnet IPA health care provider network. We provide the following services:

- disease management -- a method to manage the costs and care of high risk patients and produce better patient care

- quality management -- a review of overall patient care measured against best medical practice patterns

- utilization management -- a daily review of statistical data created by encounters, referrals, hospital, admissions and nursing home information

- claims adjudication and payment

Cash And Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents (e.g. restricted cash). From time to time, the Company maintains cash balances with financial institutions in excess of federally insured limits.

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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant area requiring estimates relate to the Company's

Global Risk arrangement with County of Los Angeles Community Health Plan, (CHP) and Tenet Healths Systems, such estimates are based on knowledge of current events and anticipated future events, and accordingly, actual results may ultimately differ materially from those estimates.

Fiscal Year

The Company operates on a December 31st year end.

Revenue Recognition

The Company prepares its financial statements and federal income taxes on the accrual basis of accounting. The Company recognizes capitation revenue on a monthly basis from managed care plans that contract with the Company for the delivery of health care services. This capitation revenue is at the contractually agreed-upon per-member, per-month rates.

With regard to revenues, expenses and receivables arising from global risk agreements with CHP and TENET, the Company estimates amounts it believes will ultimately be realizable based in part upon estimates of claims incurred but not reported (IBNR) and estimates of retroactive adjustments or unsettled costs to be applied by CHP and/or Cap Management Systems. The IBNR estimates are made by CAP-Management Systems, utilizing actuarial methods and are continually evaluated by management of the Company based upon its specific claims experience. It is reasonably possible that some or all of these estimates could change in the near term by an amount that could be material to the financial statements.

The Company is a party to a Risk Pool Agreement (the "Agreement") with Tenet HealthSystem Hospitals, Inc. ("Tenet"). Pursuant to the Agreement, 50% of the monthly capitation revenue is received directly by the Company, and the remaining 50% is deposited into an escrow account from which Cap-Management Systems, Inc., a subsidiary of Tenet pays all claims expenses, reinsurance expenses, make allowance for IBNR reserve, and retains a management fee. The Company is responsible for 50% of Profit (loss) after all institutional claims reinsurance and management fees are paid, and Incurred But Not Reported ("IBNR") reserve have been accounted for.

As of December 2004, Centinela Hospital, one of Tenets facilities under global risk contract with the Company, was sold to Centinela Freeman Health Systems, Inc. A replacement contract between the Company, CHP and Centinela Freeman Health System is still in process. All IBNR calculations and estimates for the previous contracts with Centinela Hospital /Tenet has been suspended. A new IBNR calculation and estimate has been established, for the replacement contracts between the Company, CHP and Centinela Freeman Health.

From time to time, CHP charges the Company for certain medical expenses, which the Company believes are erroneous or are not supported by its underlying agreements with CHP. Management's estimate of recovery on these contestations is based upon its judgment and its consideration of several factors including the nature of the contestations, historical recovery rates and other qualitative factors.

Non-HMO accounts receivable (Fee for Service Revenue), aggregating approximately $182,516 as at June 30, 2006, relate principally to medical services provided on a fee for service basis, and are reduced by amounts estimated to be uncollectible. These receivables are typically uncollateralized customer obligations due under normal trade terms requiring payment within 30-90 days from the invoice date. The Company does not charge late fees or penalties on delinquent invoices, however it continually evaluates the need for a valuation allowance. Management's estimate of uncollectible amounts is based upon its analysis of historical collections and other qualitative factors.

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Costs of Revenues

The Company recognizes costs of revenues paid to physicians on a monthly basis who contract with the Company for the delivery of health care services. These costs are at the contractually agreed-upon per-member, per-month rates or at the California Medi-cal fee for service rates.

Fair Value of Financial Instruments and Concentration of Credit Risk

The carrying amounts of cash, receivables, accounts payables and accrued liabilities approximate fair value because of the immediate or short-term maturity of these financial statements.

Equity Method

Investments in certain companies whereby the Company owns 20 percent or more interest are carried at cost, adjusted for the Company's proportionate share of their undistributed earnings or losses, because the Company exercises significant influence over their operating and financial activities. Such investee entity is CGI Communications Services, Inc. ("CGI").

2. Investments

InterCare

On September 18, 1999, the Company acquired 51% of all the outstanding Common Stock of InterCare in exchange for services and assumption of certain debts of InterCare. During fiscal year 2000, additional stock issued by InterCare combined with a dividend distribution by the Company of InterCare stock resulted in a net decrease in the Company's ownership percentage to 32% as at December 31, 2000. A dividend of approximately $160,800 was recorded reflecting the relative net book value of the Company's investment in InterCare that was distributed to Meridian Holdings, Inc., shareholders as at that time. The company earlier in 2003 completely divested itself from InterCare DX, but continues to provide management and administrative services for InterCare for a fee.

CGI

On December 10, 1999, the Company agreed to acquire a 20% equity interest in CGI for common stock. On December 20, 1999, the board of directors authorized the issuance of 4,000,000 pre-split (adjusted to 12,000,000 post-split) shares of common stock in consideration for the 20% of the interest in CGI. At the date of the transaction, the Company's shares opened at a price of $3 per share. Between September 1, 1999 and the acquisition date, the Company's stock sold within a range of $.25 to $3.25 per share (an average of $.97 per share). Because of the limited trading history of the Company, the six-month average was deemed to be a fair valuation of the transaction, resulting in a total investment balance of $3,880,000 as of December 31, 2000 and 1999. The shareholders of CGI were also issued warrants to purchase an additional 1,000,000 pre-split (adjusted to 3,000,000 post-split) shares of common stock at $2 pre-split share (or approximately $0.67 on a post-split basis) over a five-year period as a hedge against any fluctuation of the share price of the common stock in the immediate future. These warrants will expired on December 30, 2004.

During 2005, the Company recorded non-cash dividends of $39,000, representing distributions of a portion of its holdings of CGI Communications Services, Inc. to the Company's stockholders. In addition, at December 31, 2005, management reviewed the carrying amount of the Investment in CGI. The investment amount was written down to $2,000,000 which is the fair market value of the shares of CGI that are owned by the Company.

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3. Fixed Assets

Fixed assets consist of the following:

	As of June, 2006	December 31,2005
Computer equipment	$111,155	$ 111,155
Leasehold improvements	6,500	6,500
Office furniture and fixtures	36,603	36,603
Office equipment	25,356	25,312
Software	26,502	25,803

Medical equipment	6,654	6,654
	212,770	212,027
Less accumulated depreciation	(203,973)	(182,738)
	$ 8,747	$ 29,289

4. Line of Credit

The Company has a $50,000 line of credit with a financial institution. Related advances bear interest at 11%, and interest is payable monthly. The line of credit expired March 21, 2006. The outstanding balance has been converted to a term loan payable over six months period at interest rate of 11% per annum..

5. Long-term Debt

The Company has various loans with financial institutions with interest rates ranging from 4% to 15% and maturity dates ranging from 2015 to 2024.

6. Risk Pool Agreement

The Company is a party to a Risk Pool Agreement (the "Agreement") with Tenet HealthSystem Hospitals, Inc. ("Tenet"). Pursuant to the Agreement, 50% of the monthly capitation revenue is received directly by the Company, and the remaining 50% is deposited into an escrow account from which Cap-Management Systems, Inc., a subsidiary of Tenet pays all claims expenses, reinsurance expenses, make allowance for IBNR reserve, and retains a management fee. The Company is responsible for 50% of Profit (loss) after all institutional claims reinsurance and management fees are paid, and Incurred But Not Reported ("IBNR") reserve have been accounted for.

These revenues and expenses have been reflected in the accompanying Consolidated statements of operations for the for the quarters ended June 30, 2006 and 2005.

The Company has also reflected the monies in the escrow account as of June 30, 2006 and June 30, 2005 as restricted cash in the accompanying consolidated balance sheets. Additionally, Cap-Management Systems, Inc., provides the Company with an estimate as to the incurred but not reported reserve, which has been recorded as such in the accompanying consolidated balance sheets.

On October 4, 2005, Tenet HealthSystem Hospitals, Inc, (Tenet) announced that it has entered into an agreement to sell Community & Mission Hospitals of Huntington Park in Huntington Park, California., to Karykeion, Inc., a privately held Corporation. These are two of the hospitals contracted with CAPNET IPA and County of Los Angeles Community Health Plan . This transaction closed on December 31, 2005. Also, as of January 1, 2006, the registrant has no contracts with Tenet Health Systems Hospitals, as a result of sale of all the contracted Hospitals by Tenet.

The new owners of these hospitals, have indicated their intent not to renew the contract with Los Angeles County Community Health Plan and CAPNET IPA.

7 Judgment Award

On January 8, 2004, a default judgment was entered in favor of the registrant, by the Los Angeles County Superior Court in a case titled Meridian Holdings, Inc. versus Sirius Technologies of America, a Delaware Corporation Case Number BC256860. The amount of the judgment including damages, court cost and punitive damages are $30,687,926, with a pre-judgment interest at the annual rate of 10% The company is pursuing collection of this judgment very vigorously.

8 Recent Events

On May 19, 2006, the company accepted the offer by InterCare DX, Inc., and CGI Communications Services, Inc, both an affiliated entities 5,000,000 of Common stock at fair market value of 0.023 cents and warrant to purchase additional 5,541,503 shares at 25 cents per share, with expiration date of May 19, 2008, in exchange for forgiveness of debt owed to Meridian, in the amount of $1,500,375.84. by InterCare. Also, the registrant accepted the offer to be issued by CGI Communications Services, 6,013,043 Shares of this CGI Common Stock at 0.04 cents per share, to Meridian Holdings, Inc, in exchange for forgiveness debt in the amount of $240,521.71

As of June 30, 2006, the Company had not completed this agreement and the common Stock of Intercare DX, Inc. and CGI Communications Services had not been issued.

MERIDIAN HOLDINGS, INC.

BUSINESS

The following section contains forward-looking statements that involve risks and uncertainties, including those referring to the period of time the Company's existing capital resources will meet the Company's future capital needs, the Company's future operating results, the market acceptance of the services of the Company, the Company's efforts to establish and the development of new services, and the Company's planned investment in the marketing of its current services and research and development with regard to future endeavors. The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including: domestic and global economic patterns and trends.

Meridian Holdings, Inc. (the "Company") was incorporated under the laws of the State of Colorado on October 13, 1998. The Company is located in the City of Los Angeles, California, U.S.A. and provides management services to its' Affiliated group of Companies.

Meridian Holdings, Inc., assigns a dedicated team to each affiliated company and actively assists in their management, operations and finances. The Company seeks to maximize shareholder value by actively providing operational assistance and expertise to help its partner companies grow and develop and by giving its shareholders the opportunity to participate in the initial public offerings of its partner companies while retaining a significant ownership interest after the initial public offering.

Its network of partner companies creates an environment through which companies can leverage one another's information technology, operational experience, business contacts and industry expertise.

We plan to hire additional senior management personnel to lend expert guidance in further development of our business plan. Also, we will actively seek opportunities for strategic transactions intended to raise capital to develop our emerging business strategy, potentially including issuance of additional equity or debt instruments. In addition, we will continue to evaluate and may enter into strategic transactions, including mergers and acquisitions.

BUSINESS UNITS AND AFFILIATED PARTNERS

The Company has under management the following business units:

1. Capnet IPA

2. InterCare DX, Inc.

3. CGI Communications Services, Inc.

4. Meridian Energy Corporation

5. Meridian Health Systems

CAPNET IPA

Capnet IPA ("Independent Physician Association"), with over 300 physicians, 15 community hospitals, 4 teaching Hospitals and other ancillary service companies contracted within its network, is the core component of Meridian Holdings, Inc. healthcare management division business. The linkage of these entities is imminent as the convergence of technology brings to bear the burden of information overload, currently one of the most critical problems in the healthcare industry. The Company believes that by using currently available Software technology, most of the healthcare industry information processing could be handled more efficiently. To be competitive, the Company must license leading technologies, enhance its existing services and content, develop new technologies that address the increasingly sophisticated and varied needs of healthcare professionals and healthcare consumers and respond to technological advances and emerging industry standards and practices on a timely and cost-effective basis.

InterCare DX, Inc.

InterCare DX, Inc. formerly known as Inter-Care Diagnostics, Inc., is organized in the State of California. The company is an innovative software products and services company specializing in providing healthcare management and information system solutions.

Current Products and Services

Vasocor Vascular Diagnostic Centers

The Company recently initiated the commercialization of Vasocor Vascular Diagnostic Centers (VVDC), after an extensive patient, provider and health insurance plan acceptance test.

It is a freestanding diagnostic device, that employs a revolutionary non-invasive inexpensive, easy to use procedure that has been clinically proven to detect coronary artery disease (CAD) earlier and more accurately than existing Techniques. CAD. The Vasocor Device has FDA pre-market approval, validated clinical trial data, Medicare/Medicaid and Indemnity insurance re-imbursement eligibility. In addition to coronary arterial disease, the device can also be used in the non-invasive diagnosis of peripheral vascular disease and estimating endothelial function

InterCare Clinical Explorer (ICE(tm))

This is an Electronic Health Record System, with Tele-Medicine and Telehealth Components. The strength of ICE(tm) application is derived from differentiated core technologies consisting of: Mainstream SQL Database with full open architecture human anatomy and graphical user interfaces that simplify documentation and information access; data mining and data query tools; end-user tool sets; and interface capabilities to facilitate peaceful coexistence with other systems. Over 10 years of research and development have been spent in the development of ICE(tm) software.

Benefits of ICE(tm) Products to Healthcare Payors and Providers:

ICE(tm) can seamlessly integrate with legacy systems (utilizing any off- the- shelf interface engine) through both HL7 and proprietary legacy interfaces. A 12-tier security paradigm offers industry leading confidentiality and control of information. Security "behavior" rules are fully configurable by privileged system administrator(s), without programming, through the underlying knowledge bases. ICE(tm)'s embedded security will be fully HIPAA (Health Insurance Portability and Accountability Act of 1996) compliant when the final rulings are released, and supports data compartmentalization down to the level of specific value in any data field.

CGI COMMUNICATIONS SERVICES, INC.

CORPORATE INFORMATION

CGI Communications Services, Inc., was incorporated under Delaware law on April 12, 1997. Its executive offices are at 6201 Bristol Parkway, Culver City, California 90230. Its telephone number is (213) 627-8878.

By combining enabling technology with industry leading companies supplying telecommunications, medical products and services, CGI is poised to make InterCare, DX Inc.'s ICE(tm) suite of clinical applications, the global leader in providing comprehensive telemedicine and telecare solutions. CGI

will now begin a Pilot-testing of this technology among over 300 healthcare providers affiliated with CAPNET IPA, an integrated healthcare delivery system, located in Los Angeles, California, managed by Meridian Holdings, Inc., the ASP version of ICE(tm) when released.

BUSINESS STRATEGY

CGI Communications Services, Inc., intends to capitalize on the enormous public attention focused on the Internet and the need for increased bandwidth by increasing its' telemarketing sales and technical support staff, targeting its advertising to its core audience, and by providing the most efficient, lowest-cost high speed Internet service in its service corridor. CGI is focusing its marketing efforts to specialty and small business entities.

Meridian Energy Corporation

Meridian Energy Corporation is a wholly owned subsidiary of Meridian Holdings, Inc., both Colorado Corporation., is a diversified energy and natural resource Company, seeking high returns with minimal risk, in the field of Electricity, Oil and Gas market. Meridian Operates, backs and invests in major exploration and exploitation organized by highly regarded geologist, geophysicists and other energy executives. The Company seeks highly visible opportunities in countries around the globe with a history of natural resource production that offer exciting and attractive propositions the company will seek to minimize risk by bringing in either joint venture, carried or working interest partners, depending on the size and scale of the project.

Meridian Health System

Meridian Health Systems, (VIP Concierge Medical Services Company) is a division of Meridian Holdings, Inc, focused in provision of tertiary medical specialty care for the international clientele in U.S.A. The Company's mission is to provide access to the very best US physicians and hospitals for international patients and providers as well as reduce and mitigate access barriers to US Healthcare. The Company serves as a single point of contact and accountability for the patients, families, physicians, allied health, hospitals and vendors.

We also offer optional Flexible Medical Care Services through our preferred participating healthcare provider network in both United States and Abroad under our Healthcare membership discount services program, as well as facilitate the setting up of a Health Savings Account (HSA) program through a partner Commercial Bank, and/or High Deductible Health Insurance plan through a partner health insurance company.

SELECTED FINANCIAL DATA

The Company had net working capital of $ 1,759,017 as at June 30, 2006 compared to $ 1,510,983 at December 31, 2005. This represents an increase in working capital of 16.4%.

The selected financial data set forth above should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and notes thereto.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS:

The following section contains forward-looking statements that involve risks and uncertainties, including those referring to the period of time the Company's existing capital resources will meet the Company's future capital needs, the Company's future operating results, the market acceptance of the services of the Company, the Company's efforts to develop new products and services, and the Company's planned investment in the marketing of its current services and research and development with regard to future endeavors. The Company's actual results could differ materially from those anticipated in these

forward-looking statements as a result of certain factors, including domestic and global economic patterns and trends.

LIQUIDITY AND CAPITAL RESOURCES OF THE COMPANY.

We believe that we will be able to fund our capital commitments, operating cash requirements and satisfy our obligations as they become due from a combination of cash on hand, expected operating cash flow improvements through HMO premium increases and improvements in the benefit structure of HMO contracts as well as increase in our fee for service revenue. There can be no assurances that these sources of funds will be sufficient to fund our operations and satisfy our obligations as they become due.

Long-term cash requirements, other than normal operating expenses, are anticipated for the continued development of the Company's business plans. The Company will need to raise additional funds from investors in order to complete these business plans.

If we need additional capital to fund our operations, there can be no assurance that such additional capital can be obtained or, if obtained, that it will be on terms acceptable to us. The incurring or assumption of additional indebtedness could result in the issuance of additional equity and/or debt which could have a dilutive effect on current shareholders and a significant effect on our operations.

RESULTS OF OPERATIONS

THE FINANCIAL RESULTS DISCUSSED BELOW RELATE TO THE OPERATION OF MERIDIAN HOLDINGS FOR THE THREE MONTHS ENDED AND SIX MONTHS ENDED JUNE 30, 2006 AS COMPARED TO THE THREE MONTHS ENDED AND SIX MONTHS ENDED JUNE 30, 2005.

REVENUE

Capitation revenues from our CHP contract decreased from $ 126,253 for the three months ended June 30, 2005 to $ 11,553 for the three months ended June 30, 2006, and from $ 329,480 for the six months ended June 30, 2005 to $ 107,274 for the six months ended June 30, 2006. The decrease in capitation revenue was due in part to the termination of some of our Managed care contracts with CHP, delay in procuring a replacement contracts for the new hospital owners, dis-enrollment of members, and increased withholding of our capitation fees by CHP. Management is pursuing all its available options to mitigate further losses. There can be no guarantee that these efforts will be successful in reversing these losses.

Non-CHP accounts receivable (Fee for Service Revenue), aggregating approximately $457,321 for six months ended June 30, 2006, as oppose to $548,154 for comparable period in 2005. This receivable relates principally, to medical services provided on a fee-for-service basis, and are reduced by amounts estimated to be uncollectible. These receivables are typically uncollateralized customer obligations due under normal trade terms requiring payment within 30-90 days from the invoice date. The Company does not charge late fees or penalties on delinquent invoices, however it continually evaluates the need for a valuation allowance. Management's estimate of uncollectible amounts is based upon its analysis of historical collections and other qualitative factors.

Of the $364,111 total medical services revenue generated for the three months ended June 30, 2006, $174,806 was from the fee for service component, and $189,305 was from capitated managed care contract.

With regard to revenues, expenses and receivables arising from global risk agreements with CHP and TENET, the Company estimates amounts it believes will ultimately be realizable based in part upon estimates of claims incurred but not reported (IBNR) and estimates of retroactive adjustments or unsettled costs to be applied by CHP and/or Cap Management Systems. The IBNR estimates

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are made by CAP-Management Systems, utilizing actuarial methods and are continually evaluated by management of the Company based upon its specific claims experience. It is reasonably possible that some or all of these estimates could change in the near term by an amount that could be material to the financial statements.

As of December 2004, Centinela Hospital, one of Tenets facilities under global risk contract with the Company, was sold to Centinela Freeman Health Systems, Inc. A replacement contract between the Company, CHP and Centinela Freeman Health System has been established. All IBNR calculations and estimates for the previous contracts with Tenet is now suspended. A new IBNR calculation and estimate has been established for the replacement contracts between the Company, and the new owners of the hospitals, while letting the previous IBNR to "run-out".

The IBNR reserve as of June 30, 2005, is $20,896 compared to $38,480 as at December 31, 2005. The decrease in IBNR reserve is due to the IBNR "run-out" as discussed above, with resultant payment of newly reported medical claims as well as decrease in overall membership in Capnet IPA. Adjustments will be made to the IBNR reserve, as our medical claims volume increases with new membership enrollment in the IPA. Management will continue to monitor these reserve on a monthly basis.

EXPENSES

General and administrative expenses were $241,680 or 66% of total revenues for the three months ended June 30, 2006 compared to $267,152 or 38% of total revenues for three months ended June 30, 2005.

Medical claims paid after giving account to IBNR reserves, for the three month period ended June 30,2006 were $ 97,717 compared to $ 150,540 for the three month period ended June 30, 2005. The decrease in medical services expense for the three months ended June 30, 2006 was due to the termination of some of our capitated contracts with CHP and overall decrease in claim volume due to decreased membership.

Of the $97,717 medical claims expense for the period ended in June, 30, 2006 $88,613 was paid out of the IBNR reserve, as part of the IBNR "run-out" as discussed above.

Direct medical costs includes all costs associated with providing services for CAPNET IPA contracted members, including direct medical payment to physician providers, hospitals and ancillary services on capitated and fee for service basis. For the quarter ended June 30, 2006, these costs represents 26% of total revenue. This is referred to as Medical Loss Ratio (MLR). Our Medical Loss Ratio varies from quarter to quarter due to fluctuations in utilization, the timing of claims paid by the HMOs on our behalf, as well as increases in medical costs without counter-balancing increases in capitation revenues.

For the three months ended June 30, 2006 and 2005, payroll and employee benefits for administrative personnel was $58,957 compared to $240,718 respectively. The decrease in employee payroll expenses for the three months ended June 30, 2006 was due to laying-off of employees, as well as reduction

Management anticipates that general operating expenses will increase, as it pursues, vigorously, its acquisition of new business opportunities and the integration of the existing ones.

Costs of Revenues

The Company recognizes costs of revenues paid to physicians on a monthly basis who contract with the Company for the delivery of health care services. These costs are at the contractually agreed-upon per-member, per-month rates or at the California Medi-cal fee for service rates. For the three months ended June 30, 2006, the cost of revenue is $97,717 as compared to $114,000 for

comparable period in 2005. The decrease in cost of revenue is due to decrease in volumes of claims paid to our contracted healthcare providers.

From time to time, CHP charges the Company for certain medical expenses, which the Company believes are erroneous or are not supported by its underlying agreements with CHP. Management's estimate of recovery on these contestations is based upon its judgment and its consideration of several factors including the nature of the contestations, historical recovery rates and other qualitative factors.

INCOME/LOSS FROM OPERATIONS

The registrant recorded a income from operations for the three months ended June 30, 2006 of $19,526 compared to net income of $215,882 for the three months ended June 30, 2005. During the six months ended June 30, 2006, the registrant recorded a net income from operations of $124,158 compared to net income from operations of $65,574 for the six months ended June 30, 2005. The increase in net income from operations is due to laying off of personnel, as well as other cost cutting measures embarked upon by the registrant.

NET INCOME (LOSS)

The net income for the three months ended June 30, 2006 was $2,571 compared to net income for the three months June 30, 2005 of $214,741. The Net income for six months ended June 30, 2006 and June 30, 2005 was $101,854 and $50,222 respectively.

CERTAIN FACTORS AFFECTING FUTURE OPERATING RESULTS

This Form 10-QSB contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. When used in this Form 10-QSB, the words "believe," "anticipate," "think," "intend," "plan," "will be," and similar expressions, identify such forward-looking statements. Such statements regarding future events and/or the future financial performance of our Company are subject to certain risks and uncertainties, which could cause actual events or our actual future results to differ materially from any forward-looking statement. Certain factors that might cause such a difference are set forth in our Form 10-KSB for the period ended December 31, 2005, including the following: our success or failure in implementing our current business and operational strategies; the availability, terms and access to capital and customary trade credit; general economic and business conditions; competition; changes in our business strategy; availability, location and terms of new business development; availability and terms of necessary or desirable financing or refinancing; labor relations; the outcome of pending or yet-to-be instituted legal proceedings; and labor and employee benefit costs.

Medical claims payable include estimates of medical claims expenses incurred by our members but not yet reported to us. These estimates are based on a number of factors, including our prior claims experience and pre-authorizations of treatment. Adjustments, if necessary, are made to medical claims expenses in the period the actual claims costs are ultimately determined. We cannot assure that actual medical claims costs in future periods will not exceed our estimates. If these costs exceed our estimates, our profitability in future periods will be adversely affected.

Pursuant to the Medicaid program, the federal government supplements funds provided by the various states for medical assistance to the medically indigent. Payment for such medical and health services is made to providers in an amount determined in accordance with procedures and standards established by state law under federal guidelines. Significant changes have been and may continue to be made in the Medicaid program which could have an adverse effect on our financial condition, results of operations and cash flows.
During certain fiscal years, the amounts appropriated by state legislatures for payment of Medicaid claims have not been sufficient to reimburse providers

for services rendered to Medicaid patients. Failure of a state to pay Medicaid claims on a timely basis may have an adverse effect on our cash flow, results of operations and financial condition.

PLAN OF OPERATIONS

On February 8, 2006, the registrant issued a press release announcing that Meridian Health Systems, a healthcare services division of Meridian Holdings, Inc, has entered into an Exclusive Healthcare Services and Project Teaming Agreement with Los Angeles Hispanic Health Network, (LHHN), a Los Angeles Metropolitan Hispanic Chambers of Commerce initiative.

Under the terms of this three-year automatically renewable agreement, Meridian will arrange for the provision of healthcare services on an exclusive basis to enrolled employees and relatives of small to medium sized Hispanic employer groups and self employed individual members of LHHN, in a culturally sensitive manner, through Meridian's network of affiliated physicians, hospitals and other ancillary services providers initially within Greater Los Angeles County, with later expansion to other areas of United States and abroad.

The company projects that this agreement with LHHN which initially is estimated to provide increased health insurance purchasing power to over 160,000 Hispanic businesses within the greater Los Angeles Metropolitan area. Revenue will be generated through manage care services and membership enrolment into our network.

Most recently, the registrant entered into a managed care contract with The Citizen Choice Health Plan, a Medicare Advantage Health Plan, located in the city of Los Angeles. Under the terms of the agreement, the registrants Capnet IPA will be paid on a per member per month capitation rate. The registrant continues to seek for other avenues to increase its revenue for the Capnet IPA provider network, having lost all the capitated contracts through Tenet Health Systems.

Item 3. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the Company carried out an evaluation under the Supervision and with the participation of the Company's management, including the Chief Executive Officer and President and the Principal Financial Officer, of the effectiveness of the Company's disclosure controls and procedures as of the end of this reporting period. In designing and evaluating the Company's disclosure controls and procedures, the Company and its management recognize that there are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their desired control objectives. Additionally, in evaluating and implementing possible controls and procedures, the Company's management was required to apply its reasonable judgment. Based upon the required evaluation, the Management concluded that as of June 30, 2006, the Company's disclosure controls and procedures were effective (at the "reasonable assurance" level mentioned above) to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

From time to time, the Company and its management have conducted and will continue to conduct further reviews and, from time to time put in place additional documentation, of the Company's disclosure controls and procedures, as well as its internal control over financial reporting. The Company may from time to time make changes aimed at enhancing their effectiveness, as well as

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changes aimed at ensuring that the Company's systems evolve with, and meet the needs of, the Company's business. These changes may include changes necessary or desirable to address recommendations of the Company's management, its counsel and/or its independent auditors, including any recommendations of its independent auditors arising out of their audits and reviews of the Company's financial statements. These changes may include changes to the Company's own systems, as well as to the systems of businesses that the Company has acquired or that the Company may acquire in the future and will, if made, be intended to enhance the effectiveness of the Company's controls and procedures. The Company is also continually striving to improve its management and operational efficiency and the Company expects that its efforts in that regard will from time to time directly or indirectly affect the Company's disclosure controls and procedures, as well as the Company's internal control over financial reporting.

Changes in Internal Control Over Financial Reporting

There have been no changes in the Company's internal controls or in other factors that could significantly affect internal controls as of June 30, 2006.

PART II - OTHER INFORMATION

LEGAL PROCEEDINGS

From time to time, we may be engaged in litigation in the ordinary course of our business or in respect of which we are insured or the cumulative effect of which litigation our management does not believe may reasonably be expected to be materially adverse. With respect to existing claims or litigation, our management does not believe that they will have a material adverse effect on our consolidated financial condition, results of operations, or future cash flows.

Exhibits

31.1	Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification pursuant to section 906 of the Sarbanes-Oxley Act of 2002

Signatures

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Meridian Holdings, Inc.

Date: August 21, 2006 By: /s/ Anthony C. Dike

____________________________________Signature

Anthony C. Dike
Chief Executive officer