MERIDIAN HOLDINGS INC
Form 10QSB/A
September 28, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-QSB/A
Amendment Number 1

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

For the Quarterly Period Ended June 30, 2005

( ) 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, 2005, Meridian Holdings, Inc., Registrant had 14,370,200 shares of its $0.001 par value common stock outstanding, with a total market value of $718,500

MERIDIAN HOLDINGS, INC.

INDEX

This Amendment Number 1 to our quarterly report on Form 10-QSB, for the quarter ended June 30, 2005, includes some minor changes to improve our disclosures, specifically in item8a regarding Controls and Procedures, Changes in Internal Control over Financial Reporting and Exhibit 31. Except as required to reflect the changes noted above, this Form 10-QSB/A does not attempt to modify or update any other disclosures set forth in the original filing. Additionally this Form 10-QSB/A does not purport to provide a general update or discussion of any other developments at the Company subsequent to the original filing.

2

MERIDIAN HOLDINGS, INC.
Condensed Consolidated Balance Sheets
(Unaudited)

ASSETS	As of June 30, 2005	December 31 2004 (Restated)
Current assets		
Cash and cash equivalents	$ 42,427	$ 173,628
Restricted cash	223,904	217,283
Accounts receivable, net of allowance for doubtful accounts of $179,812 and $198,813 respectively	1,997,588	1,645,838
Other current assets	8,302	11,420
Total current assets	2,272,191	2,048,170
Fixed assets, net of accumulated depreciation	24,663	33,944
Investments	3,424,997	3,424,997
Total assets	$ 5,721,851	$ 5,507,111
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accrued Expense	633,839	299,504
Reserve for incurred but not reported claims	75,738	201,311
Line of credit	47,514	50,263
Current portion of long term debt	4,117	4,117
Total current liabilities	761,208	555,195
Long Term liabilities		
Long-term debt	350,326	391,821
Total liabilities	1,111,534	947,016

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; 14,370,200 shares issued and outstanding at June 30, 2005 and December 31, 2004 respectively)	14,370	14,370
Additional paid-in capital	5,526,760	5,526,760
Accumulated deficit	(930,813)	(981,035)
Total stockholders' equity	4,610,317	4,560,095
Total liabilities and stockholders' equity	$ 5,721,851	$ 5,507,111

See accompanying notes to Condensed consolidated financial statements

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

	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004 (Restated)	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004 (Restated)
Revenues				
Capitation	$ 126,253	$ 321,638	329,480	700,821
Risk Pool	60,713	148,792	179,678	316,833
Fee For Service	410,068	1,365	548,154	1,806
	597,034	471,795	1,059,034	1,019,460
Cost of revenues	(114,000)	(187,078)	(273,603)	(392,374)
Gross margin	483,039	284,717	783,709	627,086
Operating expenses				
General and administrative	(267,152)	(429,138)	(718,135)	(801,733)
(Loss)Income from Operations	215,882	(137,421)	65,574	(174,647)
Other income and expense				
Stock option issued	-	(500,000)	-	(500,000)
Other expense	(1,141)	(3,161)	(15,352)	(5,425)

Total other income/expense	(1,141)	(503,161)	(15,352)	(505,425)
Net Income/Expense	214,741	(640,582)	50,222	(680,072)
Net income per share	$ 0.03	$ (0.07)	$ 0.004	$ (0.06)
Weighted average shares outstanding	14,370,200	9,383,149	14,370,200	11,870,200

See accompanying notes to Condensed consolidated financial statements

4

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

	Six Months Ended June 30, 2005	2004 (restated)	Three Months End 2005
Cash flows from operating activities			
Net income/(loss)	$ 50,222	(680,072)	$ 214,741
Adjustments to reconcile net Loss/income to net cash used in operating activities:			
Stock Option issued	-	500,000	-
Depreciation and amortization	18,199	8,908	4,626
(Increase) decrease in:			
Restricted cash	(6,621)	98,777	(34,341)
Accounts receivable	(351,720)	(131,761)	(232,835)
Other current liabilities	3,118	-	-
Accounts payable	239,005	170,351	171,035
Accrued expense	80,277	-	44,277

Incurred but not reported reserve	(125,573)	(26,509)	(125,573)
Net cash used in operating activities	(93,093)	(60,306)	41,930
Cash flow from investing activities			
Acquisition of fixed assets	8,917	(8,918)	-
Net cash used in investing activities	(8,917)	(8,918)	-
Cash flow from financing activities			
Borrowings from majority stockholder/officer	-	(31,459)	-
Repayment on long-term debt	-	38,025	(20,082)
Repayment on line of credit	(2,749)	1,300	(1,870)
Repayment of shareholder loan	(11,314)	-	-
Borrowings of long term debt	(15,128)	-	-
Net cash (used in) provided by financing activities	(29,191)	70,784	(21,952)
Increase/(Decrease) in cash and cash equivalents	(131,201)	1,560	19,978
Cash and cash equivalents, beginning of period	173,628	1,218	22,449
Cash and cash equivalents, end of period	$ 42,427	2,778	42,427

Supplemental Disclosure of non-cash investing and financing activities
Stock Issued 500,000

See accompanying notes to Condensed consolidated financial statements

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, 2004 included in its Annual Report on Form 10-KSB. Operating results for the six-month period ended June 30, 2005 are not necessarily indicative of the results of operations that may be expected for the year ending December 31, 2005.

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.

6

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 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 over a six months period.

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 $548,154 as at June 30, 2005, 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.

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. During the period ended June 30, 2005, the Company has resorted to paying fee for service for all the

Physician services as a result of increase withholding of the capitation fees by CHP. The Company has accrued $114,000 as an estimate of cost of revenue in the

Income statement pending the receipt of the encounter data from our primary Care providers.The Company is contesting these withholdings, and is pursuing all available remedies for recovery.

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

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 expired on December 30, 2004.

3. Fixed Assets

Fixed assets consist of the following:

	As of June 30, 2005	June 30,2004
Computer equipment	$ 111,155	$ 111,155
Leasehold improvements	6,500	6,500
Office furniture, fixtures and equipment	61,916	61,916
Software	25,803	25,803
Medical equipment	6,654	6,654
	212,027	212,027
Less accumulated depreciation	(187,364)	(168,759)
	$ 24,663	$ 43,268

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 expires March 21, 2006.

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.

8

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 Incurred But Not Reported ("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 ("IBNR") reserve have been accounted for.

These revenues and expenses have been reflected in the accompanying Consolidated statements of operations for the quarters ended June 30, 2005 and 2004 respectively.

The Company has also reflected the monies in the escrow account as of June 30, 2005 and 2004, respectively as restricted cash in the accompanying consolidated balance sheets.

7. Judgment Receivable

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%. Management is pursuing all collections options regarding this judgment.

8. Recent Events

The registrant re-stated it financials for the year ended December 31, 2004 to reflect the loss in its' investment in CGI Communication services, Inc. (Subsidiary) and the removal of judgment receivable which is a gain contingency from the account, and instead placing it in the note to the financial statements, in accordance with GAAP, so as not to recognize revenue prior to realization. Every effort is being made by the management to collect on this judgment.

9. Subsequent Events

On August 8, 2005, the board directors authorized the issuance of 3,750,000 shares of common stock of the registrant at a fair-market value of 0.08 cents per share (based on closing Asking price of registrants' common stock as of August 5, 2005) to Anthony C. Dike, MD, our Chairman and CEO, in exchange for extinguishing $300,000 debts owed to him by the registrant as at December 31, 2004.

MERIDIAN HOLDINGS, INC.

THE COMPANY

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 Culver City California, U.S.A. and contracts with physicians to provide health care services primarily within greater of Los Angeles County.

The Company became fully reporting under Securities & Exchange Commission guidelines on March 31, 1999. The Company's common stock started trading on the OTCBB on August 26, 1999. 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 opportunity.

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

Under our model, the primary care physicians maintain their independence but are aligned with a professional staff to assist in providing cost effective medicine. Each primary care physician provides direct patient services as a primary care doctor including referrals to specialists, hospital admissions and referrals to diagnostic services. These physicians are compensated on a per member per month capitation basis.

We believe our expertise allows us to provide a service and manage the risk that health insurance companies cannot provide on an efficient and economic level. Health insurance companies are typically structured as marketing entities to sell their products on a broad scale. Due to mounting pressures from the industry, managed care organizations have altered their strategy, returning to the traditional model of selling insurance and transferring the risk to a provider service network such as us. Under such arrangements, managed care organizations receive premiums from the Center for Medicare and Medicaid Services, State Medicaid programs and other commercial groups and pass a significant percentage of the premium on to a third party such as us, to provide covered benefits to patients, including sometimes pharmacy and other enhanced services. After all medical expenses are paid, any surplus or deficit remains with the provider service network. When managed properly, accepting this risk can create significant surpluses.

SELECTED FINANCIAL DATA

The Company had net working capital of $1,510,983 as at June 30, 2005 compared to $ 1,492,975 at December 31, 2004. This represents an increase in working capital of 1%.

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.

10

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, 2005 AS COMPARED TO THE THREE MONTHS ENDED AND SIX MONTHS ENDED JUNE 30, 2004.

REVENUE

Capitation revenues from our CHP contract decreased by 155% from $ 321,638 for the three months ended June 30, 2004 to $ 126,253 for the three months ended June 30, 2005, and by 113% from $ 700,821 for the six months ended June 30, 2004 to $ 329,480 for the six months ended June 30, 2005. 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, disenrollment 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 $548,154 for six months ended June 30, 2005, as oppose to $1,806 for comparable period in 2004. 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 $597,034 total medical services revenue generated for the three months ended June 30, 2005, $410,068 was from the fee for service component, and

11

$186,966 was from capitated managed care contract.

The increased in fee for Service revenue from negligible amount during the quarter ended June 30, 2004 to current amount of $410,068 for the period ended June 30, 2005 is as a result of the recent acquisition of two large clinics from Centinela Medical Center Clinics, Inc., as of January 1, 2005. These clinic facilities provides a wide array of medical and diagnostic services to the patient population they serve.

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.

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" over a six months period.

The IBNR reserve as of June 30, 2005, is $75,738. 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 $267,152 or 38% of total revenues for the three months ended June 30, 2005 compared to $429,506 or 91% of total revenues for three months ended June 30, 2004. This decrease in expense is due to outsourcing of our Manage Contract management to Cap Management systems, as well as laying off of some personnel in order to reduce operational expenses, as well as increased efficiency.

Medical claims paid after giving account to IBNR reserves, for the three month period ended June 30,2005 were $ 150,540 compared to $ 187,633 for the three month period ended June 30, 2004. The decrease in medical services expense for the three months ended June 30, 2005 was due to the termination of our primary care only contracts with CHP, as well as payment of claims from our IBNR reserve for the terminated contracts with TENET.

Of the $150,540 medical claims expense for the period ended in June, 30, 2005 $125,573 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, 2005, these costs represents 17% 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.

Our claim 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 counterbalancing increases in capitation revenues.

12

For the three months ended June 30, 2005 and 2004, payroll and employee benefits for administrative personnel was $240,718, compared to $128,113 respectively. The increase in employee payroll expenses for the six months ended June 30, 2005 was due to hiring of additional support staff for the operation of the clinics.

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. During the period ended June 30, 2005, the company resorted to paying fee for service for all the physician services as a result of increase withholding of the capitation fees by CHP. The Company has accrued $114,000 as an estimate of cost of revenue in the income statement pending the receipt of the encounter data from our primary care providers. The Company is contesting these withholdings, and is pursuing all available remedies for recovery.

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, 2005 of $215,882, or 64% of total revenues, compared to net loss of $144,789, or 31% of total revenues, for the three months ended June 30, 2004. During the six months ended June 30, 2005, the registrant recorded a net income from operations of $65,574 or 8% of total revenues compared to net loss from operations of $174,647 or 17% of total revenues for the six months ended June 30, 2004. The increase in net income from operations is due to increase in the fee for service revenue for the period ended June 30, 2005.

NET INCOME (LOSS)

The net income for the three months ended June 30, 2005 was $214,741 compared to net loss for the three months June 30, 2004 of $647,950. The Net income for six months ended June 30, 2005 and June 30, 2004 was $50,222 and $680,072 respectively. The increase in net income from operations is due to increase in the fee for service revenue for the period ended June 30, 2005.

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-Q, 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-K for the period ended December 31, 2004, 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

The Company intends to embark on more aggressive marketing campaign to increase its enrollment of membership into its Capnet IPA Healthy Family Program contract with the County of Los Angeles Community Health Plan.

The Company through it's CGI Communications, Services, Inc., has embarked on a global telemedicine initiative, which we believe will expand our operational network to key strategic countries all over the world, and will increase our operational capacity and revenues.

Recent Invents

The registrant re-stated it financials for the June 30 2004 and December 31, 2004 year end to reflect the loss in its' investment in CGI Communication services, Inc. (Subsidiary) and the removal of judgment receivable which is a gain contingency from the account and instead placing it in the note to the financial statements, in accordance with GAAP, so as not to recognize revenue prior to realization. Every effort is being made by the management to collect on this judgment.

Subsequent events

On July 18, 2005, CGI Communications Services, Inc., an applications services provider specializing in Telemedicine and Telehealth services to the healthcare community, iuused a press release announcing that it has entered into a memorandum of understanding (MOU) with ITeMAX, a technology Company based in Riverside California , that specialized in providing ITenabled services to the global marketplace

Under the terms of the MOU, the two companies have mutually decided to explore and develop the following business opportunities:

1 Preferred IT Services Partnership: Under this term, ITeMAX will identify IT service and implementation opportunities within its target marketplace and will team up with CGI to develop the necessary solution and provide the associated service

2 IT Services Business Venture: Under this concept the two companies will jointly develop an IT services business infrastructure to serve target customers world-wide. They will set up a joint venture company with mutually acceptable operating terms and conditions to execute this business

3 Co-operative Marketing: The two companies will develop a co-operative marketing program. Under this arrangement, each party agrees to list the other as a strategic partner in their advertising, promotional, product description

and corporate and sales literature

On August 8, 2005, the board directors authorized the issuance of 3,750,000

shares of common stock of the registrant at a fair-market value of 0.08 cents per share (based on closing Asking price of our common stock as of August 5, 2005) to Anthony C. Dike, MD, our Chairman and CEO, in exchange for extinguishing $300,000 debts owed to him by the registrant as at December 31, 2004.

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, 2005, 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 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, 2005.

PART II - OTHER INFORMATION

Item 1: LEGAL PROCEEDINGS

From time to time, we may be engaged in litigation in the ordinary course of our business 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.

15

Item 6. Exhibits and Reports on Form 8-K

31.1 Certification pursuant to Section 302 of The Sarbanes-Oxley Act of 2002 of Anthony C. Dike

32.1 Certification pursuant to Section 906 of The Sarbanes-Oxley Act of 2002 of Anthony C. Dike

SIGNATURE

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.

Date: September 27, 2005 By: /s/ Anthony C. Dike

____________________________________Signature

Anthony C. Dike

Chief Executive officer