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MERIDIAN HOLDINGS INC  
Form 10QSB/A  
August 14, 2002

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-QSB

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

For the Quarterly Period Ended June 30, 2002

( ) 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)

900 WILSHIRE BOULEVARD, SUITE 500, LOS ANGELES, CALIFORNIA 90017

-----  
(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, 2002, Meridian Holdings, Inc., Registrant had 93,706,485  
shares of its \$0.001 par value common stock outstanding.

Page 1 of 14 sequentially numbered pages

Form 10-Q

Second Quarter 2002

MERIDIAN HOLDINGS, INC.

INDEX

	PAGE
	----
PART I. FINANCIAL INFORMATION	
Condensed Consolidated Balance Sheets	3
Condensed Consolidated Statements of Operations	4
Condensed Consolidated Statements of Cash Flows	5
Notes to Condensed Consolidated Financial Statements	6-7
Management's Discussion and Analysis of Financial Condition and Results of Operations	8
PART II OTHER INFORMATION	
Legal Proceedings	13
Additional Information	14
Signature	14

2

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

ASSETS	As of June 30, 2002 =====	December 2001 =====
Current assets		
Cash and cash equivalents	\$ 51,218	\$ 7,219
Restricted cash	292,787	331,232
Accounts receivable, net of allowance for doubtful accounts of \$179,812 and \$151,744	1,106,162	1,485,530
Other current assets	52,681	17,881
	-----	-----
Total current assets	1,502,848	1,841,863
Fixed assets, net of accumulated depreciation	37,018	37,870
Intellectual property, net of accumulated \$0, depreciation as at June 30, 2002 (Note2) -	350,000	-
Investments	3,915,102	3,803,691
	-----	-----
Total assets	\$ 5,804,968	\$ 5,683,424
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 180,351	\$ 202,750
Accrued payroll and other	355,977	283,477
Dividend payable	-	-
Reserve for incurred but not reported claims	150,162	144,025
Accrued interest	38,545	-
Line of credit	63,931	46,278
Current portion of long-term debt	96,375	96,375
	-----	-----
Total current liabilities	885,341	772,904

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Long Term liabilities		
Loan from majority stockholder/officer	290,777	-
Long-term debt, net of current portion	44,818	422,530
	-----	-----
Total liabilities	1,220,936	1,195,434
	=====	=====
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; 93,456,485 shares issued and outstanding at June 30, 2001 and 93,706,485 as at June 30, 2002	93,706	93,957
Additional paid-in capital	4,947,424	4,947,424
Accumulated deficit	(457,098)	(553,140)
	-----	-----
Total stockholders' equity	4,584,032	4,487,990
	-----	-----
Total liabilities and stockholders' equity	\$ 5,804,968	\$ 5,683,424
	=====	=====

See accompanying notes to Condensed consolidated financial statements

3

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

	Three Months Ended June 30, 2002 =====	2001 =====	Six Months Ended June 30, 2002 =====	2001 =====
Revenues				
Capitation	\$ 421,847	\$ 576,555	831,313	1,054,383
Risk Pool	107,854	-	300,772	-
Fee For Service	7,749	-	16,197	-
Sale of software	-	-	-	149,600
	-----	-----	-----	-----
	537,450	576,555	1,148,282	1,203,383
Cost of revenues				
Capitation	136,685	258,888	284,729	462,736
	-----	-----	-----	-----
Gross margin	400,765	317,667	863,553	740,647
	-----	-----	-----	-----
Operating expenses				
General and administrative	445,257	272,995	855,695	936,918
Research and development	-	78,817	-	80,833
	-----	-----	-----	-----
Income/(loss) from operations	(44,492)	(34,145)	7,858	(277,104)
	-----	-----	-----	-----
Other income and expense				
Equity interest in earnings				
(loss) of investment	116,412	(50,138)	111,656	(74,180)
Other net	(13,928)	(3,784)	(23,326)	(14,774)

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	-----	-----	-----	-----
	102,484	(53,922)	88,330	(88,954)
	-----	-----	-----	-----
Net income/(loss) before Extraordinary item	57,992	(88,067)	96,188	(366,058)
	-----	-----	-----	-----
Extraordinary items				
Loss on abandonment of Software	-	(2,193,750)	-	(2,193,750)
Gain on forgiveness of Debt	-	2,891,250	-	2,891,250
	-----	-----	-----	-----
	-	697,500		697,500
	-----	-----	-----	-----
Net income after Extraordinary items	\$ -	609,433	-	331,442
	=====	=====	=====	=====
Basic and diluted Weighted average shares outstanding			\$ 0.000 93,831,485	\$ (0.003) 93,456,485

See accompanying notes to Condensed consolidated financial statements

4

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

	Six Months Ended June 30,	
	2002	2001
	=====	=====
Cash flows from operating activities		
Net income	\$96,189	331,442
Adjustments to reconcile net Loss to net cash used in operating activities:		
Loss on abandonment of software		2,193,750
Gain on forgiveness of debt		(2,891,250)
Depreciation and amortization	5,412	178,983
Equity interest in earnings of investments		74,180
(Increase) decrease in:		
Restricted cash	38,445	(124,033)
Accounts receivable	348,769	251,382
Other current assets	(354,355)	(1,293)
Accounts payable	4,267	(165,629)

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Accrued payroll and other	13,530	(142,703)
Incurred but not reported reserve	6,137	42,580
Accrued interest	14,877	(111,082)
	-----	-----
Net cash used in operating activities	173,270	(78,267)
	-----	-----
Cash flow from investing activities		
Acquisition of fixed assets	(4,560)	(8,119)
Investment in InterCare	(111,411)	-
Organization costs	-	-
	-----	-----
Net cash used in investing activities	(115,971)	(8,119)
	-----	-----
Cash flow from financing activities		
Borrowings from majority stockholder/officer	(11,262)	17,136
Borrowings on long-term debt	-	-
Repayment of debt	(2,046)	(25,288)
Borrowings on line of credit		(3,733)
	-----	-----
Net cash (used in) provided by financing activities	(13,308)	(11,890)
	-----	-----
(Decrease) increase in cash and cash equivalents	43,911	(98,276)
	-----	-----
Cash and cash equivalents, beginning of period	7,219	253,501
	-----	-----
Cash and cash equivalents, end of period	\$ 51,210	155,225
	=====	=====

Supplemental Disclosure of non-cash investing and financing activities

See accompanying notes to Condensed consolidated financial statements

5

MERIDIAN HOLDINGS, INC.

Notes to Condensed Consolidated Financial Statements

1. General

Basis of Reporting

The interim accompanying unaudited condensed 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.

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For further information, management suggests that the reader refer to the audited financial statements for the year ended December 31, 2000 included in its Annual Report on Form 10-KSB. Operating results for the six-month period ended June 30, 2002 are not necessarily indicative of the results of operations that may be expected for the year ending December 31, 2002.

### 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 opportunity.

### 2. Investments and Intellectual Property

On June 29, 2000, the Company purchased all of the assets of Sirius Computerized Technologies Limited (Israel), consisting primarily of intellectual property and technology related to that company's software used in healthcare management. The asset purchase includes the highly innovative intellectual property commonly known as MedMaster and the associated Virtual Multi-object-architecture Database, as well as all components, subsystems, source code, and documentation. The purchase price was \$2.7 million. Simultaneous with this acquisition, the Company formed a research and development subsidiary in Jerusalem, Israel known as Corsys Group Limited ("Corsys"). During the quarter ended June 30, 2001, the operations of Corsys ceased as discussed in the following paragraph.

The purchase of intellectual property was funded by the majority stockholder/officer of the Company, and the Company has recorded a note payable to the majority stockholder/officer in the amount of \$2.7 million. Intellectual property has been capitalized in the amount of \$2.7 million in the accompanying condensed consolidated balance sheet. The acquisition was made with the understanding that the Company would have free and clear title to the intellectual property.

The intellectual property, including its subsystems, source code and documentation, was acquired out of the bankruptcy proceedings of Sirius Computerized Technologies Limited (Israel) and Sirius Technologies of America (Collectively, "Sirius"). The acquisition was made with the understanding that the Company would have free and clear title to the intellectual property.

However, during fiscal year 2000, a significant creditor of Sirius, Lockheed Martin Systems Integration, Owego ("Lockheed") obtained a judgment against Sirius and executed same to obtain possession of the source code underlying the Sirius MedMaster suite of software products, and has expressed its intention to exploit same, thus creating competition with the Company. In April 2001, the receiver for Sirius filed the appropriate documents to prevent

6

the Company from taking the software from the Corsys premises. In May 2001, the Company notified the receiver of its intent not to pursue the intellectual property rights further and to cancel the original purchase agreement.

Given the above events, the Company had recorded a loss on abandonment of

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software during the quarter ended June 30, 2001 in the amount of \$2,193,750, which is classified as an extraordinary item in the accompanying condensed consolidated statement of operations.

The original intent of the related note payable to the majority stockholder/officer was to pay him back for the proceeds of \$2,700,000 which he had pledged in connection with the acquisition of the intellectual property. The majority stockholder/officer is now seeking return of the stock, and, in July 2001, has also rescinded the note payable, plus accrued interest. This forgiveness of debt was recorded as of June 30, 2001 to match the timing of the cancellation of the acquisition. Therefore, the Company had reflected an extraordinary gain of \$2,891,250 in the accompanying condensed consolidated statement of operations.

### 3. Fixed Assets

Fixed assets consist of the following:

	As of June 30, 2002	December 31, 2001
Computer equipment	\$ 78,376	\$ 73,816
Leasehold improvements	6,500	6,500
Office furniture, fixtures and equipment	61,915	36,603
Software	22,389	22,389
Medical equipment	5,391	5,391
	-----	-----
	174,571	170,012
Less accumulated depreciation	(137,553)	(132,141)
	-----	-----
	\$ 37,018	\$ 48,883
	=====	=====

### 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, 2003.

### 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 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 Tenet pays all claims expenses, reinsurance expenses and retains a management fee. These revenues and expenses have been reflected in the accompanying consolidated statements of operations for the quarters ended June 30, 2002 and 2001.

The Company has also reflected the monies in the escrow account as of June 30, 2002 and June 30, 2001 as restricted cash in the accompanying consolidated balance sheets. Additionally, Tenet provides the Company with an estimate as to the incurred but not reported claims, which has been recorded as such in the accompanying consolidated balance sheets.



Related party Transaction

On June 30, 2002, the registrant purchased the intellectual property rights to the source code and proto-type software commonly know as ICE(tm) from InterCare.com-Dx, Inc., an affiliated Company, in exchange for long term debt reduction and prepayment for software document cost.

The source code and the prototype software will be utilized to develop a replacement software program for the MedMaster product, which will satisfy the needs of our current and future customers.

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 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 opportunity.

SELECTED FINANCIAL DATA

The Company had net working capital of \$617,507 as at June 30, 2002 compared to \$1,068,959 at December 31, 2001. This represents a decrease in working capital of 42%. This decrease in working capital is attributed to decrease in enrollment of membership into the Capnet IPA Network as well as decreases in monthly fees paid by the contracted health plans to the IPA.

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

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of cash on hand, expected operating cash flow improvements through HMO premium increases and improvements in the benefit structure of HMO contracts effective January 1, 2001, as per our IPA contract amendment with the County of Los Angeles Community health Plan.

However, 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.

9

### 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, 2002 AS COMPARED TO THE THREE MONTHS ENDED AND SIX MONTHS ENDED JUNE 30, 2001.

#### REVENUE

Medical services revenues decreased by 27% from \$576,555 for the three months ended June 30, 2001 to \$421,847 for the three months ended June 30, 2002, and by 21% from \$1,054,383 for the six months ended June 30, 2001 to \$831,313 for the six months ended June 30, 2002. Revenue from fee for services increased by 100% from \$0.00 for the three months ended June 30, 2001 to \$ 7,749 for comparable period in June 2002. For the six months ended June 30, 2002, revenue from fee for service increased by 100% as against the comparable period June 2001. No revenue was generated from the sale of software during both periods.

We provided managed care services for approximately 30,000 and 25,000 member months (members per month multiplied by the months for which services were available) during the six months ended June 30, 2002 and 2001, respectively. This figure is comparative for both the three months and six months ended June 30, 2002 and 2001 respectively.

Revenue generated by our managed care entities under our contracts with HMOs as a percentage of medical services revenue was approximately 96% and 99%, respectively, during the six months ended June 30, 2002 and 2001. Revenue generated by the Los Angeles County Community Health Plan ("CHP") contracts was 99.9% and 95% of medical services revenue for the six months ended June 30, 2002 and 2001, respectively. Revenue generated by LACARE Health Plan ("LACARE") contract was less than 1% of medical services revenue for the six months ended June 30, 2002 and 2001, respectively. This figure is comparative to the three months ended June 30, 2002 and 2001 respectively.

Revenue from other services including software licensing and implementation services was 0% and 41% of our total revenues during the six months ended June 30, 2002 and June 30, 2001 respectively, and 0% of our total revenues during the three months ended June 30, 2002 and June 30, 2001, respectively.

#### EXPENSES

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Medical claims paid, which includes capitation payments to our contracted primary care IPA physicians and medical claims paid revenue after giving account to IBNR reserves, for the three month period ended June 30, 2002 were \$114,365 or 21% of medical services revenue after giving account to IBNR reserves, compared to \$258,888 or 45% of medical services revenue for the three month period ended June 30, 2001. Medical services expenses, for the six month period ended June 30, 2002 were \$226,773 or 20% of medical services revenue, compared to \$462,736 or 44% of medical services revenue for the six month period ended June 30, 2001. The decreases are due to decrease in volume of claims paid to contracted providers for services rendered. The decrease in volume of claims is also attributable to decrease in enrollment of members in the IPA network with concomitant decrease in utilization of services.

Medical claims represent the costs of medical services provided by providers other than our contracted primary care providers, but which are to be paid by us for individuals covered by our capitated risk contracts with HMOs. 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.

General and administrative expenses were \$445,257 or 83% of total revenues and \$272,995 or 47% of total revenues, for the three months ended June 30, 2002 and 2001, respectively and \$855,6958 or 75% of total revenues compared to \$936,918 or 78% of total revenues for the six months ended June 30, 2002 and 2001 respectively. The variance is due the explanation in the paragraph above.

10

The company had embarked on an aggressive cost containment measures such as closing of the Israeli operation and laying-off of some personnel in order to reduce its operating expense.

For the three months ended June 30, 2002 and 2001, payroll and employee benefits for administrative personnel was \$121,554, or 23% of total revenues, compared to \$141,605 or 25% of revenue, respectively. Payroll and employee benefits for administrative personnel was \$275,766 for the six months ended June 30, 2002, or 24% of total revenues, compared to \$299,575 or 25% of revenue for the six months ended June 30, 2001. The decrease in employee payroll expenses was due to reduction in the support staff as well as other cost containment measures implemented by the registrant to help enhance its balance sheet.

The Company waived future payments for administrative services by InterCare.com-Dx, Inc., an affiliated entity to offset amounts previously paid for MedMaster Software maintenance and enhancement to Corsys Group (Israel) Limited, a wholly owned subsidiary of the registrant that was not delivered, in the amount of \$325,000, due to the abandonment of Medmaster software by the registrant, following a Georgia (USA) Court decision in 2001 to award the said asset to Lockheed Martin Owego, New York, one of Sirius Computerised Technology (Israel), Limited creditors.

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.

### INCOME/LOSS FROM OPERATIONS

The registrant recorded a loss from operations for the three months ended June 30, 2002 of \$44,492, or 8% of total revenues, and a loss of \$34,145, or 5% of total revenues, for the three months ended June 30, 2001. During the six

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months ended June 30, 2002, the registrant recorded an income from operations of \$7,858, or 0.7% of total revenues compared to a loss from operations of \$277,104 or 23% of total revenues for the six months ended June 30, 2001. The increase in net loss from operations is due to the increase in operating expenses, and the income reported for the six months ended June 2002 is as a result of the decrease in operating expenses.

### NET INCOME (LOSS)

The net income for the three months ended June 30, 2002 and 2001 was \$57,992 and \$609,433 respectively. The net income for six months ended June 30, 2002 and 2001 was \$96,188 and \$331,442 respectively. These decreases in net income were due to the extraordinary net gain that was recorded on June 30, 2001 following the abandonment of purchase of the intellectual property commonly known as MedMaster(tm).

### 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, 2000, 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

11

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

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On April 30, 2002, the Company initiated a restructuring of its business whereby some employees were laid-off. This restructuring was necessitated by the need for the Company to enhance the Company's balance sheet, as well as streamline its operations. Additional support staff was hired to fill the special needs of the Company in the area of claims processing and quality management.

On June 30, 2002, the registrant purchased the intellectual property rights to the source code and proto-type software commonly know as ICE(tm) from InterCare.com-Dx, Inc., an affiliated Company, in exchange for long term debt reduction and prepayment for software document cost.

The source code and the prototype software will be utilized to develop a replacement software program for the MedMaster product, which will satisfy the needs of our current and future customers.

The Company is now in the final stages of the development of ICE(tm) clinical documentation software, which is scheduled to be released during the third quarter of 2002. There can be no assurance that the Company expected date of release of the software will be within the above stated time frame. Management will continue to make such adjustments in the release date, until it is satisfied that the developed software application will perform as per our original software specifications. If we are not able to release the software application in a timely manner, our revenue growth will be impacted.

### PART II - OTHER INFORMATION

#### LEGAL PROCEEDINGS

The registrant believed that it had acquired the intellectual property commonly known as MedMaster (tm), including its sub-systems, source-code and documentation, out of the bankruptcy proceedings of Sirius Computerized Technologies Limited and Sirius Technologies of America (collectively, "Sirius"). The acquisition was made with the understanding that the registrant would have free and clear title to the intellectual property. However, a significant creditor of Sirius, Lockheed Martin Systems Integration, Owego ("Lockheed"), obtained a judgment against Sirius and executed same to obtain possession of the source-code underlying the Sirius' MedMaster (tm) suite of software products, and expressed its intention to exploit same, thus resulting in the potential of significant competition against the registrant and casting doubt on its ownership of the MedMaster(tm) suite of software products.

The registrant had requested on March 31, 2001, that Sirius and Lockheed come to a negotiated settlement of their dispute on or before April 30, 2001 in order for the asset to be delivered free and clear to the registrant

12

per the terms of the purchase agreement of the intellectual property, as originally approved by the Israeli Bankruptcy Courts, or the registrant would be forced to take action to seek redress from the Israeli Bankruptcy Court.

On or about April 16, 2001, the registrant was notified by the US Counsel representing Sirius Computerized Technology (LTD) and Sirius Technology of America, Inc. (Collectively known as "Sirius") in case Number A00-71987 (304-Ancillary) in the United States Bankruptcy Court for the District of Georgia, Atlanta Division, USA, that he had filed a motion to withdraw as counsel for Sirius in the Ancillary bankruptcy proceeding filed on behalf of Sirius for lack of payment of the outstanding legal fees by Sirius.

As of April 30, 2001, no agreement had been reached between Sirius and Lockheed

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Martin, regarding settlement of their dispute.

On April 30, 2001, the receiver for Sirius filed an application to the Tel Aviv District court, and obtained a decree on May 1, 2001, prohibiting "Corsys Group (A subsidiary of Meridian Holdings, Inc, based in Jerusalem, Israel) and all its representatives from taking out of the Company's premises any part of the assets which were purchased by Meridian, including copies of the source-code, and/or the technology, and/or any know-how and/or documents and/or written and/or magnetic material and/or any technological means, including that known as "V.M.D.B"., MedMaster" and everything connected and ancillary to it and/or from presenting copies of these to any party.

On May 16, 2001, the registrant notified Mr. Amir Dolev (Sirius' Receiver), that it had cancelled the Agreement and Agreements in principle to purchase the assets of Sirius, because of the acts that were done to prevent the registrant from using the MedMaster software and the source-code, which conduct constituted serious and material breaches of the agreements, in addition to the receivers' inability to deliver to the registrant the purchased assets, free and clear of third party claims and liens.

The registrant further informed the receiver that it estimated the damage that was caused to it as a result of the breach of the contractual relationship with the Receiver, and that the letter of termination should not be deemed to be a waiver of any assertions or rights of the registrant including (but not limited to) its rights to receive full compensation for all of its cost, losses, and damage caused to it as a direct and/or indirect result of the contractual relationship with the receiver and/or his breaches thereof.

On May 21, 2001, the registrant was notified that the Ancillary proceedings, Case Number A00-71987 (304-Ancillary), filed by Sirius on September 2000 against Lockheed Martin were dismissed with prejudice in favor of Lockheed Martin. The Ancillary proceedings related to the execution of the judgment against Sirius thereby obtaining for Lockheed Martin full possession of the source-code underlying the Sirius' MedMaster(tm) suite of software products.

On May 22, 2001, the registrant received a letter from Sirius' receiver, refusing to honor the registrant's letter of cancellation of the Agreement and Agreements in principle to purchase the assets of Sirius.

On June 6, 2001, the registrant again affirmed its position regarding the cancellation of the Agreement and Agreements in principle to purchase the assets of Sirius. The receiver was advised to remove from the Corsys Group premises all the assets that belong to Sirius as soon as possible.

On or about July 12, 2001, the registrant filed a notification to the District Court of Israel (Bankruptcy 1117/00, Civ. App. 10221/01), informing the court that the registrant and /or its representatives did not have a copy or copies of the source code of MedMaster software. Also, the Court was informed that, after realizing that the Receiver failed to fulfill his obligations to the registrant, the registrant had issued a notice of cancellation of the agreement between the receiver and the registrant, and the receiver has opposed such notice.

On July 18, 2001, the board of directors by way of written consent approved the rescission of the promissory note entered between the registrant and Anthony C. Dike, in the amount of \$2.7 million being the purchase price of the

13

intellectual property of Sirius, a result of the above cancellation.

On July 19, 2001, Ventures & Solutions, LLC, filed a lawsuit against the company, styled Ventures & Solutions, LLC, Plaintiff v. Meridian Holdings, Inc.,

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Defendant, Circuit Court of Alexandria, Virginia, Case No. C10517. The company was served with a copy of the Complaint on August 6, 2001. Plaintiff has alleged that the company owes it approximately \$29,000.00, pre and post judgment interest, and attorneys' fees and costs.

On May 3, 2002 the registrant filed a counter-claim styled Ventures & Solutions, LLC., Plaintiff v. Meridian Holdings, Inc, in Virginia Circuit Court for the City of Alexandria, Case No. CL020075, as amended. The Company is seeking over \$1,500,000 for both compensatory and punitive damages against the plaintiff and Mr. Dale Church the CEO of Ventures and Solutions, LLC, for misrepresentation and fraud, breach of contract and breach of fiduciary duties. This lawsuit is in the discovery phase.

Also, the registrant has filed a cross complaint against Silicon Valley Bank in the lawsuit Titled Silicon Valley Bank, a California Corporation v. Meridian Holdings, Inc., a Colorado Corportation, InterCare.com, Inc, a Nevada Corporation, Case number BC 259513. The lawsuit, as well as the cross-complaint were due to the earlier acquisition of the asset of Sirius Computerized Technology of Israel from the Israeli Bankruptcy Court by the registrant, for which Silicon Valley Bank claimed that said asset was pledged as collateral by Sirius et al for a loan in the amount of \$450,000. The Registrant had earlier abandoned the proposed asset purchase, and has filed a lawsuit against Sirius et al as described earlier in this section, and believes that the lawsuit brought by Silicon Valley Bank is without merit, and frivolous, and we will vigorously defend our position in this matter. This case is still in the discovery phase.

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.

ADDITIONAL INFORMATION

None.

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.

MERIDIAN HOLDINGS, INC.

DATE: August 10, 2002

By: /s/ Foday Sorsor Conteh

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Foday Sorsor Conteh  
Vice President Finance



