UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 8-K/A

Current Report
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): 11/01/2007

MOLINA HEALTHCARE, INC.
(Exact name of registrant as specified in its charter)

Commission File Number: 001-31719

DE	**134204626**
(State or other jurisdiction of incorporation)	**(IRS Employer Identification No.)**

200 Oceangate, Suite 100
Long Beach, CA 90802
(Address of principal executive offices, including zip code)

562 435 3666
(Registrant's telephone number, including area code)

One Golden Shore Drive
Long Beach, CA 90802
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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Item 2.01. Completion of Acquisition or Disposition of Assets

This Current Report on Form 8-K/A amends the Current Report on Form 8-K filed on November 1, 2007, to include the required Item 9.01 financial statements of the business acquired and pro forma financial information.

Item 9.01. Financial Statements and Exhibits

(a) Financial statements of businesses acquired.

The required financial statements for Mercy CarePlus are attached as Exhibits 99.1 and 99.2 hereto and are hereby incorporated by reference.

(b) Pro forma financial information.

The unaudited pro forma condensed financial statements give pro forma effect to our acquisition of Mercy CarePlus as of September 30, 2007 for balance sheet purposes and as of January 1, 2006, for statement of income purposes, and are filed as Exhibit 99.3 hereto and are hereby incorporated by reference.

(c) Shell company transactions.

Not applicable.

(d) Exhibits

Exhibit No.	Description
23.1	Consent of Brown Smith Wallace, LLC
99.1	Audited financial statements of Alliance for Community Health LLC d/b/a Mercy CarePlus for the fiscal year ended December 31, 2006.
99.2	Unaudited condensed financial statements of Alliance for Community Health LLC d/b/a Mercy CarePlus for the nine month periods ended September 30, 2007 and 2006.
99.3	Unaudited pro forma financial information.

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Signature(s)

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

Date: January 17, 2008		MOLINA HEALTHCARE, INC.
	By:	/s/ Mark L. Andrews
		Mark L. Andrews Chief Legal Officer and General Counsel

Exhibit Index

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Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the registration statements (Forms S-8, No. 333-108317 and No. 333-138552) pertaining to the Molina Healthcare, Inc. 2000 Omnibus Stock and Incentive Plan, 2002 Equity Incentive Plan, and 2002 Employee Stock Purchase Plan, and to the registration statement (Form S-3/A, No. 333-123783) and related Prospectus Supplement of Molina Healthcare, Inc., of our report dated December 20, 2007, with respect to the consolidated balance sheet of Alliance For Community Health LLC, d/b/a Mercy CarePlus, as of December 31, 2006, and the related statements of income, members' equity, and cash flows for the year then ended, which report appears in the Form 8-K/A of Molina Healthcare, Inc. dated January 17, 2008.

Brown Smith Wallace, LLC

St. Louis, Missouri
January 16, 2008

Exhibit 99.1

ALLIANCE FOR COMMUNITY HEALTH LLC
D/B/A
MERCY CAREPLUS

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2006

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BROWN SMITH WALLACE LLC

1050 N. LINDBERGH BOULEVARD ST. LOUIS, MO 63132
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A MEASURABLE DIFFERENCE™

Independent Auditors' Report

Board of Managers
Alliance For Community Health LLC
d/b/a Mercy CarePlus
St. Louis, Missouri

We have audited the accompanying balance sheet of Alliance For Community Health LLC, d/b/a Mercy CarePlus (Company) as of December 31, 2006, and the related statements of income, members' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2006, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Brown Smith Wallace, LLC

December 20, 2007

ALLIANCE FOR COMMUNITY HEALTH LLC
d/b/a MERCY CAREPLUS

Balance Sheet
December 31, 2006

ASSETS	
Current Assets	
Cash and cash equivalents	**$ 14,193,020**
Certificates of deposit	**6,051,860**
Prepaid assets	**219,601**
Deferred taxes	**388,095**
Accounts Receivable:	
Premiums	**17,140,378**
Health care	**84,093**
Interest	**64,777**
Total Current Assets	**38,141,824**
Furniture and Equipment, net	**261,905**
Goodwill	**19,375,796**
Non-Current Investments	
Restricted investments	**496,187**
Long-term investments	**1,645,000**
Deposits	**19,672**
TOTAL ASSETS	**$ 59,940,384**
LIABILITIES AND MEMBERS' EQUITY	
Current Liabilities	
Accounts payable	**$ 550,919**
Claims payable	**12,742,654**
Accrued expenses and other current liabilities	**1,108,874**
Income taxes payable	**1,584,292**
Deferred taxes	**20,891**
Total Current Liabilities	**16,007,630**
Long-Term Deferred Taxes	**251,885**
Members' Equity	**43,680,869**
TOTAL LIABILITIES AND MEMBERS' EQUITY	**$ 59,940,384**

The accompanying notes are an integral part of these financial statements.

ALLIANCE FOR COMMUNITY HEALTH LLC
d/b/a MERCY CAREPLUS

Statement of Income
Year ended December 31, 2006

Revenues	
Premium revenue	**$ 124,454,390**
Interest and other revenue	**1,179,015**
Total Revenues	**125,633,405**
Expenses	
Medical and hospital	**100,624,556**
Reinsurance	**217,074**
Administration	
Compensation and benefits	**3,937,860**
Purchased services	**4,606,735**
Marketing	**429,135**
Bad debt recovery, net	**(281,040)**
Occupancy and depreciation	**324,854**
General and administrative	**967,709**
Total Expenses	**110,826,883**
Income before income taxes	**14,806,522**
Income taxes	
Current	**4,787,337**
Deferred	**385,692**
NET INCOME	**$ 9,633,493**

The accompanying notes are an integral part of these financial statements.

ALLIANCE FOR COMMUNITY HEALTH LLC
d/b/a MERCY CAREPLUS

Statement of Changes to Members' Equity
Year ended December 31, 2006

Balance at December 31, 2005	$10,878,564
Contributed capital	32,719,847
Distributions to Members	(9,551,035)
Net income	9,633,493
Balance at December 31, 2006	**$43,680,869**

The accompanying notes are an integral part of these financial statements.

ALLIANCE FOR COMMUNITY HEALTH LLC
d/b/a MERCY CAREPLUS

Statement of Cash Flows
Year ended December 31, 2006

Cash from operating activities	
Net income	$ 9,633,493
Adjustments to reconcile net income to net cash provided by operating activities:	
Realized losses on disposal of furniture and equipment	2,609
Depreciation and amortization	87,144
Deferred income taxes	(115,319)
Amortization of discount on restricted assets	2,563
(Increase) decrease in operating assets:	
Prepaid assets	(123,121)
Premiums receivable	(9,847,773)
Reinsurance receivable	111,252
Health care receivable	470,332
Deposits	(1,152)
Increase (decrease) in operating liabilities:	
Accounts payable	233,873
Claims payable	5,458,076
Accrued expenses and other current liabilities	(100,036)
Accrued interest receivable	4,403
Income taxes payable	1,226,626
Net cash provided by operating activities	7,042,970
Cash from investing activities	
Purchases of furniture and equipment	(150,425)
Proceeds from maturity of certificates of deposit	2,000,000
Purchases of certificates of deposit	(6,051,860)
Proceeds from maturity or sale of investments	4,848,617
Proceeds from maturity or sale of long-term investments	1,505,000
Net cash provided by investing activities	2,151,332
Cash from financing activities	
Additions to contributed capital, net	13,344,051
Distributions to Members	(9,551,035)
Net cash provided by financing activities	3,793,016
Net increase in cash and cash equivalents	12,987,318
Cash and cash equivalents, at beginning of year	1,205,702
Cash and cash equivalents, at year end	**$14,193,020**

The accompanying notes are an integral part of these financial statements.

Note A – Summary of Significant Accounting Policies

Organization and Operations

Alliance For Community Health LLC, d/b/a Mercy CarePlus (the "Company") is a prepaid health maintenance organization (HMO) providing health insurance to certain State of Missouri Medicaid and Children's Health Insurance Program (CHIP) managed care participants in St. Louis, Missouri and certain surrounding counties and expanded into the Central and Western regions of Missouri on July 1, 2006. The Company was originally incorporated as a not-for-profit entity, Alliance for Community Health, Inc., on March 5, 1986; received a license to operate as an HMO in the State of Missouri on June 17, 1987; began operations as an HMO on September 1, 1995; and converted to a limited liability company (LLC) on August 16, 1996.

On May 28, 2004, ownership of the Company changed pursuant to a Definitive Agreement approved by the Department of Insurance of the State of Missouri. In accordance with the Agreement, the Company's former Class A and Class B members transferred their ownership rights to CCP Acquisition Limited (CAL) and three executive members of management. Upon transfer, CAL became the sole Class A Member of the Company and the three executive members of management became Class B Members.

On May 17, 2006 CAL transferred its ownership interest in the Company to CCP Holdings, LLC (CH), an affiliate of CAL by common ownership.

On June 30, 2006, Mercy Health Plans, Inc. (MHP), contributed cash in the amount of $13,344,051 and goodwill in the amount of $19,375,796 to purchase a newly issued member interest in the Company. The goodwill was established to record the new members' interest of the Company at the fair market value. The goodwill was calculated as the difference between the newly established fair market value of the Company and the value of the cash contributed by the new member. The Company obtained an independent qualified appraisal for the determinable market value before the merger was completed. As a result of the contribution, MHP obtained 50% ownership of the Company. The ownership percentages of the existing owners, CH and certain members of management (collectively), were reduced to 40.05% and 9.95%, respectively. CH remained the sole Class A Member, the three executive members of management remained the sole Class B Members and MHP become the sole Class C Member of Alliance for Community Health, LLC. Simultaneously, the Company's "doing business as" changed from Community CarePlus to Mercy CarePlus.

Note A – Summary of Significant Accounting Policies (Continued)

<u>**Organization and Operations**</u> **(Continued)**

As a result of the June 30, 2006, change in ownership, the Company has three classes of members: Classes A, B, and C. Voting rights are reserved for only Classes A and C. Class A receives priority in distributions over other classes.

On September 29, 2006, the Class C ownership interest of MHP was transferred to Sisters of Mercy Health System (SMHS), an affiliate of MHP.

At December 31, 2006, the Company had insured members of approximately 70,000.

The Company is structured as a network model HMO. As such, the Company has contracts with networks for physician and hospital services. Each member chooses a primary care physician (PCP) who is under contract with the Company. The Company has also negotiated contracts with hospitals, physician specialists, and other health care providers to satisfy the necessary medical care needs of its eligible members that extend beyond the level of care provided by the PCP. The Company has subcapitation agreements with some of its PCPs under the Medicaid program that are structured so that the PCP receives monthly payments based upon the number, age, and sex of members associated with the PCP. The Company also has subcapitation agreements with its network providers for mental health, transportation, dental, and vision services that are structured so that the respective providers receive monthly payments based upon the number of members enrolled with the Company.

The Company contracts with NovaSys Health Network, LLC (NovaSys) to provide third-party administrative services under a service agreement which provides for the Company to pay NovaSys a per member per month (PMPM) processing fee. Services provided by NovaSys include, but are not limited to claims and revenue processing, information systems, and management reporting systems. The initial term of the contract was from September 1, 1998 through August 31, 2001. The term of the current contract is October 1, 2005 through September 30, 2008.

<u>**Basis of Presentation**</u>

The Company's financial statements are presented on the accrual basis of accounting in conformity with accounting standards generally accepted in the United States of America (GAAP).

Note A – Summary of Significant Accounting Policies (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting practices generally accepted in the United States 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. Actual results could differ from those estimates.

The Company's most significant estimates relate to medical costs payable, revenues, contingent liabilities and asset valuations, allowances and impairments. These estimates are adjusted each period, as more current information becomes available. The impact of any changes in estimates is included in the determination of earnings in the period in which the estimate is adjusted. The following describes significant changes in estimates and their impact on 2006 net income and members' equity:

Claims Payable:

1. The actuarial assumption of the margin of error was 6% for the year ended December 31, 2006, based on historical experience.

Risks and Uncertainties

Investment securities are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risk in the near term could materially affect the amounts reported in the financial statements.

Cash and Cash Equivalents

Cash and cash equivalents consists of cash on deposit with financial institutions, certificates of deposit with original or remaining maturities at purchase of three months or less, and overnight repurchase agreements, excluding amounts classified as restricted assets. The carrying amount approximates fair value because of the short maturities of these investments.

Note A – Summary of Significant Accounting Policies (Continued)

Premiums Receivable

Premiums receivable are amounts due from the State of Missouri pursuant to the terms of the Medicaid Managed Care Contract. In addition, the Company is entitled to receive amounts from the Missouri Department of Social Services, Division of Medical Services, under the Supplemental Omnibus Budget Reconciliation Act (SOBRA), for reimbursement of the costs related to deliveries by eligible Medicaid and CHIP mothers. SOBRA reimbursements for Medicaid and CHIP deliveries were $3,503 and $3,894, respectively, for each delivery during the period from January 1, 2006 through June 30, 2006. The Company records the SOBRA reimbursement due as a premium receivable and recognizes the corresponding premium revenue in the period that the delivery occurs.

Included in premiums receivable are $34,919 related to SOBRA at December 31, 2006. As of December 31, 2006, SOBRA receivables are recorded net of related allowances of $0. The State of Missouri eliminated separate SOBRA payments for member births effective July 1, 2006.

Health Care Receivables

Health care receivables represent amounts owed to the Company for pharmaceutical rebates, as well as claim overpayment receivables. In April 2006, the Company entered into an agreement with the pharmacy benefit manager ("PBM") whereby the PBM reduces direct pharmacy costs by an amount equal to a minimum guaranteed rebate amount. Therefore, as of December 31, 2006, there were no outstanding pharmaceutical rebate receivables.

Restricted Assets

Restricted assets consist of U.S. Treasury notes at December 31, 2006. Restricted assets are held on deposit with a financial institution to comply with applicable federal and state HMO regulations. The U.S. Treasury notes at December 31, 2006 are classified as held to maturity and carried at amortized cost, which approximates market value.

Note A – Summary of Significant Accounting Policies (Continued)

Furniture and Equipment

Furniture and equipment are stated at cost less accumulated depreciation. Repairs and maintenance are expensed in the period incurred. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets as follows: furniture and office equipment — five years, and computer hardware and software — three years to five years. Furniture and equipment consists of the following:

Cost	
Furniture and office equipment	$ 319,222
Computer hardware	170,949
Computer software	124,947
Total cost	615,118
Accumulated depreciation	(353,213)
Furniture and equipment, net	$ 261,905

Depreciation expense for the year ended December 31, 2006 was $87,144.

Impairment of Long Lived Assets

The Company evaluates whether events and circumstances have occurred that indicate the remaining estimated useful life of long lived assets may warrant revision or that the remaining balance of an asset may not be recoverable. The measurement of possible impairment is based on the ability to recover the balance of assets from expected future operating cash flows on an undiscounted basis. In the opinion of management, no such impairment existed at December 31, 2006.

Goodwill

As part of the capital transaction that occurred on June 30, 2006 (see Organization and Operations above), the Company has recorded Goodwill. In accordance with Statements of Financial Accounting Standards No. 142, goodwill is not amortized since it has an indefinite life. Instead, it is tested annually for impairment. During the year ended December 31, 2006, no impairment was identified.

Note A – Summary of Significant Accounting Policies (Continued)

Claims Payable

Claims payable consists of case reserves for claims received and estimates of losses incurred but not reported on unpaid benefits. Estimates of losses incurred but not reported are actuarially determined based on prior experience modified for current trends as well as industry data to aid in this estimation process.

The following table sets forth an analysis of claims payable and provides a reconciliation of beginning and ending reserves as follows:

Net balance at beginning of year	$ 7,284,578
Incurred related to:	
Prior year	(882,945)
Current year	101,507,498
Paid related to:	
Prior year	(3,931,480)
Current year	(91,234,997)
Net balance at end of year	$ 12,742,654

Long-Term Investments

Long-term investments consist of municipal preferred bonds with maturities of greater than one year. These investments are recorded at cost, which approximates their market value at December 31, 2006.

Revenue Recognition

The Company recognizes premiums from the State of Missouri as income in the period to which health care coverage relates.

Medical and Hospital Expenses

Medical and hospital expenses represent amounts paid and payable to physicians, specialists, hospitals, and other health care providers for individual claims on which services have been performed. Such amounts include paid and pending claims and estimates of claims for services performed during the year which have not, as of the balance sheet date, been reported to the Company. The estimated cost of claims incurred but not reported is actuarially determined based on current membership statistics, current utilization, industry, and historical data.

Note A – Summary of Significant Accounting Policies (Continued)

Medical and Hospital Expenses (Continued)

The Company contracts with certain PCPs and other providers to provide health, dental, and ancillary services to its members at contracted monthly PMPM capitation rates. Monthly capitation is paid currently in the month of service. As such, there is no capitation payable at December 31, 2006.

Advertising and Public Relations Expenses

The Company utilizes various types of nondirect-response advertising and methods. The costs related to advertising and public relations are expensed as incurred. As such there are no capitalized advertising or public relations costs as December 31, 2006. Related expenses incurred during the year ended December 31, 2006 were, $297,221.

Income Taxes

The Company qualifies as an insurance entity for federal and state income tax purposes. As an insurance entity, the Company is subject to corporate income taxes. Deferred tax assets and liabilities are recognized for temporary differences between the financial statement carrying amounts of existing admitted assets and liabilities, and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those differences are expected to be recovered or settled.

To account for historic differences between deferred taxes on the Company's books, which are kept on a basis of accounting other than generally accepted accounting principles (US GAAP), and an adjustment of $114,611 was made to reduce the opening balance of members' equity.

Note A - Summary of Significant Accounting Policies (Continued)

Recently Issued Accounting Standards

In September 2006, the FASB issued No. 157, "Fair Value Measurements" ("SFAS No. 157"), to clarify the definition of fair value, establish a framework for measuring fair value and expand the disclosures on fair value measurements. SFAS No. 157 defines fair value as the price that would be received to sell an asset or the price paid to transfer a liability in an orderly transaction between market participants at measurement date (i.e., an exit price). SFAS No. 157 also stipulates that, as a market-based measurement, fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability, and establishes a fair value hierarchy that distinguishes between (a) market participant assumptions developed based on market data obtained from sources independent of the reporting entity (i.e., observable inputs) and (b) the reporting of the entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (i.e., unobservable inputs). SFAS No. 157 becomes effective for the Company in its year ending December 31, 2008. The Company is currently evaluating the impact of the provisions of SFAS No. 157 on its financial statements.

Note B - Business and Credit Concentration

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, short-term investments, and premiums receivable. The Company places its cash and cash equivalents with what management believes to be high credit quality institutions. At times such investments may be in excess of the FDIC insurance limit. At December 31, 2006, the Company does not anticipate nonperformance by its financial institutions.

With respect to premiums receivable, the Company conducts its business primarily under the Medicaid and CHIP managed care contracts with the related State of Missouri governmental agencies, and virtually all of the Company's revenues are attributable to this contract. The Company's cash flow is subject to the receipt of sufficient funding and timely payment by the applicable government entities. If the appropriate government agency does not receive sufficient appropriations to cover its contractual obligations, the Medicaid managed care contract may be terminated or the Company's compensation may be deferred or reduced. Any deferral or reduction in payment could have a material adverse effect on the Company's financial position, results of operations, or cash flows. In addition, the Company is dependent on a sufficient number of individuals to enroll in the Company's plan.

Note B - Business and Credit Concentration (Continued)

The failure of the Company to receive a sufficient number of such enrollees may also have a material adverse effect on the Company's business, financial position, results of operations, and cash flows.

The Company's Medicaid and CHIP managed care contracts are subject to renewal every three years. The Company's current contract, which was effective July 1, 2006, is due for renewal on July 1, 2009. The renewal and financial terms of the contract are dependent upon many factors, including the quality and type of service provided, governmental budget constraints, changes in government or agency personnel, and priorities or philosophies of government agencies with respect to provision of services to various at-risk populations.

Government contracts generally are subject to audits, reviews, and investigations. These audits, reviews, and investigations typically involve a review of the contractor's performance under the contract, its reported costs, and its compliance with applicable laws and regulations. In addition, the contract is subject to competitive bidding, and the State of Missouri may terminate its contract with the Company for cause and upon certain other specified conditions. The loss, or renewal on less favorable terms, of the State of Missouri Medicaid managed care contract could have a material adverse effect on the Company's business, financial position, results of operations, and cash flows.

Note C - Reinsurance

The Company purchases, on a premium basis, reinsurance coverage from a commercial carrier, which limits the Company's exposure on large dollar claims for medical services. The deductible under the reinsurance policy in force at December 31, 2006 includes a stop-loss provision for 90% of claimed eligible expenses in excess of $1,000,000 per member per year, based on the lesser of the Company's contracted payments and billed charges.

Note D - Members' Contributed Capital

As described in Note A: "Organization and Operations", on June 30, 2006, Mercy Health Plans, Inc. (MHP), contributed cash in the amount of $13,344,051 and goodwill in the amount of $19 375,796 to purchase a newly issued member interest in the Company. These contributions were treated as additions to the Company's contributed capital.

Note D - Members' Contributed Capital (Continued)

On May 1, 2006, the Company made a dividend distribution to its members in the amount of $421,754. A second distribution of $6,129,281 was made on June 30, 2006 as part of the closing of the capital transaction with MHP. A portion of this distribution in the amount of $2,828,424 was considered a return of capital and was charged against contributed capital, while the remaining balance of $3,300,857 was reported as a dividend distribution. On December 5, 2006, a third dividend distribution was made in the amount of $3,000,000.

Note E - Lease Commitments

The Company leases office space and equipment under noncancelable operating lease agreements which expire at various dates through 2009. Future minimum payments under noncancelable operating leases that have initial or remaining lease terms in excess of one year are as follows:

Years ending December 31,	
2007	$ 282,167
2008	280,501
2009	254,471
Total	$ 817,139

Rent expense during 2006 was $237,710.

Note F - Statutory Financial Information

Mercy CarePlus is subject to regulation by the Department of Insurance of the State of Missouri. Those regulations, in part, prescribe certain accounting methods for statutory purposes, which differ from GAAP. For statutory purposes, the Company follows National Association of Insurance Commissioners' Statements of Statutory Accounting Principles (NAIC SSAP) as the basis of its accounting principles, as long as they do not contradict the statutes or regulations of the State of Missouri.

Note F - Statutory Financial Information (Continued)

As of December 31, 2006, Mercy CarePlus' statutory assets, statutory surplus, and statutory net income were as follows:

Statutory assets	$41,600,350
Statutory surplus	$ 4,143,669
Statutory net income	$ 9,400,622

The maximum amount of dividends which can be paid by Mercy CarePlus to its shareholders without prior approval of the Department of Insurance of the State of Missouri is equal to the lesser of 10% of statutory surplus as of the preceding calendar year-end or Mercy CarePlus' net investment income from the previous year. All dividends must be paid from earned surplus.

As a condition for licensure by the Department of Insurance of the State of Missouri, the Company is required to maintain a minimum surplus of 2% of its prior fiscal year's premium revenue, as defined by state statutes and regulations. The Company met the minimum surplus requirements of approximately $1,710,000 for the year ended December 31, 2006.

The most significant differences resulting from the financial statements under statutory accounting practices with GAAP, are as follows:

1. Revenue is recorded net of amounts ceded to reinsurers rather than being presented on a gross basis for GAAP.

2. Certain assets designated as nonadmitted assets (principally, prepaid expenses, deferred tax assets, furniture, equipment, and certain receivables) are charged directly to accumulated surplus.

3. Deferred federal income taxes are provided for the tax effects of certain income and expense items recognized for income tax purposes in different years than for financial reporting purposes. The change in deferred tax asset or liability is reflected in surplus. GAAP requires the change to be reported in income. Admittance testing may result in a charge to capital and surplus for nonadmitted portions of the deferred tax asset. For GAAP reporting, a valuation allowance may be recorded against the deferred tax asset.

Note F - Statutory Financial Information (Continued)

4. The statutory statements of cash flow do not classify consistently with GAAP and a reconciliation of net income to net cash provided by operating activities is not provided.

5. The statutory financial statements do not include a statement of comprehensive income.

6. Cash and cash equivalents include cash and certificates of deposit in banks with maturity dates of one year or less from the acquisition date, as well as overnight repurchase agreements. Short-term investments include money market accounts and repurchase agreements with remaining maturities of one year or less at the time of acquisition. GAAP considers cash on hand and highly liquid investments with original maturities of three months or less, including money market accounts, to be cash and cash equivalents. GAAP considers investments with original maturities in excess of three months but less than one year to be temporary investments.

7. If a reporting entity has multiple cash accounts, the net amount of all accounts shall be reported jointly. Cash accounts with positive balances shall not be reported separately from cash accounts with negative balances. GAAP permits reporting the net cash amount only if the legal right of offset exists.

The following tables set forth the differences between the Company's net worth and net income as determined on a GAAP versus a statutory basis. The intangible asset component of the differences noted below was not audited in conjunction with these statutory financial statements.

Statutory net worth	$25,613,610
Assets non-admitted for statutory purposes	7,006,022
Intangible asset	18,200,271
Cumulative statutory amortization of intangible asset	117,552
Decrease in deferred tax asset for GAAP purposes	(7,371,905)
Increase in income tax expense net	115,319
GAAP net worth	$43,680,869

Note F - Statutory Financial Information (Continued)

Statutory net income	$ 9,400,622
Amortization of intangible asset	117,552
Increase in income tax expense net	115,319
GAAP net income	$ 9,633,493

The NAIC has established certain minimum risk-based capital (RBC) requirements for insurance enterprises. The NAIC's RBC Model serves as a benchmark for the regulation of insurance companies by state insurance regulators. RBC provides for targeted surplus levels based on formulas which specify various weighting factors that are applied to financial balances or various levels of activity based on the perceived degree of risk, and are set forth in the RBC requirements. The amount determined under such formulas is called the Authorized Control Level RBC (ACL). The NAIC RBC requirements have not been adopted by the Department of Insurance of the State of Missouri (state within which the Company is domiciled). At December 31, 2006, the Company's total adjusted capital was 634% of its ACL.

Note G - Income Taxes

Total income tax expense (benefit) was allocated as follows:

Current	$ 4,787,337
Deferred	385,692
Total	$ 5,173,029

Income tax expense (benefit) from continuing operations differed from the amounts computed by applying the U.S. federal income tax rate of 35% as a result of the following:

Federal tax computed at a statutory rate	$ 5,182,283
Meals and entertainment	13,026
State income taxes	479,720
Other	(502,000)
	$ 5,173,029

Note G - Income Taxes (Continued)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below:

Deferred tax asset	
Unpaid losses and LAE	$ 96,038
Accrued vacation pay	44,478
Allowance for uncollectible receivables	11,626
Accrued professional fees	52,879
Accrued bonuses	27,072
Other	156,002
Total gross deferred tax assets	388,095
Deferred tax liability	
Depreciation	20,891
Intangible asset	251,885
Total gross deferred tax liability	272,776
Net deferred tax asset	$ 115,319

Note H - - Related Party Transactions

Total medical and hospital claim payments made by the Company to the current Members and their affiliates during 2006 were $9,058,079.

Note I - - Contingencies

The Company maintains insurance coverage for property, casualty, fidelity, directors' and officers' liability, and general and medical liability in amounts deemed adequate by its Board of Managers. The Company is subject to various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters would not have a material adverse effect on the Company's financial position or liquidity.

Note J - 401(k) Savings Plan

Mercy CarePlus sponsors a 401(k) Retirement Savings Plan (RSP) for employees. All active full-time employees who are age twenty-one or over and have completed three months of service are eligible for the RSP. Employees are able to contribute from 1% to 75% of their wages to the plan. In addition to employee contributions to the RSP, the Company matches the first 5% of the employee's contribution. The Company's matching contribution was $99,983 for the year ended December 31, 2006.

Note K - Non-Cash Transactions

During the year ended December 31, 2006, the following non-cash transaction occurred:

- The merger described in Note A generated Goodwill in the amount of $19,375,796.

Note L - Supplemental Disclosure of Cash Flow Information

Cash paid during the year ended December 31, 2006:

Income taxes paid $ 4,064,796

Note M - Subsequent Events

On February 27, 2007, the Company received Amendment #003 to contract #C306118003, Medicaid Managed Care — Central, Eastern and Western regions, with the State of Missouri. The amended contract is for the period of July 1, 2006 through June 30, 2007, and calls for an increase in the fixed prices of the contract for performing the required services in accordance with the terms, conditions, and provisions of the contract. The contractor's firm, fixed PMPM Net Capitation Rate for each Category of Aid (COA) Rate subgroup must not exceed the State's Maximum Net Capitation Rate as listed in the contract. All other terms, conditions and provisions of the contract, including all prices, shall remain the same and apply hereto.

The contract amendment is retroactive to July 1, 2006 and, as a result of Amendment #003, the Company has recorded premiums receivable and corresponding revenue in the amount of $2,907,722 at December 31, 2006.

Note M - Subsequent Events (Continued)

On October 31, 2007, all of the ownership interests in the Company were sold to Molina Healthcare, Inc., a publicly traded corporation which operates government-sponsored health insurance plans in eight states. The sale was subject to the terms of a purchase agreement executed by the parties on September 6, 2007 and approved by the Missouri Department of Insurance, Financial Institutions and Professional Registration on October 22, 2007.

As part of this change in ownership of the Company, $3,840,382 was expensed during 2007. Approximately $3,500,000 of this amount was related to Class B Members' employment agreements, which were terminated as part of the change in ownership.

Exhibit 99.2

Alliance for Community Health LLC
d/b/a
Mercy Care Plus

Unaudited Condensed Financial Statements

Nine Months Ended September 30, 2007 and 2006

Exhibit 99.2

ALLIANCE FOR COMMUNITY HEALTH LLC
D/B/A MERCY CAREPLUS
CONDENSED BALANCE SHEET
SEPTEMBER 30, 2007
(amounts in thousands)
(unaudited)

ASSETS	
Current assets:	
Cash and cash equivalents	$ 9,046
Investments — certificate of deposit	8,000
Receivables	15,861
Prepaid and other current assets	213
Current deferred taxes	366
Total current assets	33,486
Property and equipment, net	242
Goodwill & intangible assets	19,598
Restricted investments	501
Long-term investments	1,645
Other assets	36
Total assets	$ 55,508
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities	
Medical claims and benefits payable	$ 12,609
Income taxes payable	326
Accounts payable and accrued liabilities	1,818
Total current liabilities	14,753
Long-term deferred income taxes	252
Total Liabilities	15,005
Commitments and contingencies	—
Members' equity	40,503
Total liabilities and members' equity	$ 55,508

See accompanying notes.

Exhibit 99.2

ALLIANCE FOR COMMUNITY HEALTH LLC
D/B/A MERCY CAREPLUS
CONDENSED STATEMENTS OF INCOME
(amounts in thousands)
(unaudited)

	Nine months ended September 30, 2007	2006
Revenues		
Premium revenue	$ 126,906	$ 80,750
Interest and other revenue	1,059	717
Total Revenues	127,965	81,467
Expenses		
Medical and hospital	103,953	66,175
Administrative expense:		
Compensation and benefits	3,580	2,802
Marketing	455	605
Other general and administrative exp	4,851	3,836
Depreciation and amortization	157	60
Total Expenses	112,996	73,478
Income before income taxes	14,969	7,989
Income taxes	5,147	2,939
NET INCOME	$ 9,822	$ 5,050

See accompanying notes.

ALLIANCE FOR COMMUNITY HEALTH LLC
D/B/A MERCY CAREPLUS
CONDENSED STATEMENTS OF CASH FLOWS
(amounts in thousands)
(unaudited)

	Nine Months Ended September 30, 2007	2006
Operating activities		
Net income	$ 9,822	$ 5,050
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	157	60
(Increase) decrease in operating assets		
Prepaid & other current assets	60	(98)
Receivables	1,363	(5,556)
Increase (decrease) in operating liabilities:		
Medical claims and benefits payable	(133)	6,296
Accounts payable and accrued liabilities	155	185
Income taxes payable	(1,259)	1,006
Net cash provided by operating activities	10,165	6,943
Investing activities		
Purchases of furniture and equipment	(60)	(141)
Proceeds from maturity of certificates of deposit	3,091	3,960
Purchases of certificates of deposit	(5,039)	(5,054)
Proceeds from maturity or sale of long-term investments		1,505
Increased in restricted investments	(4)	4
Purchase of intangible assets	(300)	—
Net cash provided by investing activities	(2,312)	274
Financing activities		
Additions to contributed capital	—	13,344
Distributions to Members	(13,000)	(6,551)
Net cash provided by financing activities	(13,000)	6,793
Net increase in cash and cash equivalents	(5,147)	14,010
Cash and cash equivalents at beginning of year	14,193	1,206
Cash and cash equivalents at end of year	$ 9,046	$ 15,216
Supplemental cash flow information:		
Cash paid during the period for income taxes	$ 6,405	$ 2,054

See accompanying notes.

ALLIANCE FOR COMMUNITY HEALTH LLC
d/b/a MERCY CAREPLUS

NOTES TO CONDENSED UNAUDITED FINANCIAL STATEMENTS

(Dollar amounts in thousands)
(Unaudited)
September 30, 2007

Note A — Summary of Significant Accounting Policies

Organization and Operations

Alliance For Community Health LLC, d/b/a Mercy CarePlus (the "Company") is a prepaid health maintenance organization (HMO) providing health insurance to certain State of Missouri Medicaid and Children's Health Insurance Program (CHIP) managed care participants in St. Louis, Missouri and certain surrounding counties. The Company expanded operations into the Central and Western regions of Missouri on July 1, 2006. The Company was originally incorporated as a not-for-profit entity, Alliance for Community Health, Inc., on March 5, 1986; received a license to operate as an HMO in the State of Missouri on June 17, 1987; began operations as an HMO on September 1, 1995; and converted to a limited liability company (LLC) on August 16, 1996.

On May 28, 2004, ownership of the Company changed pursuant to a Definitive Agreement approved by the Department of Insurance of the State of Missouri. In accordance with the Agreement, the Company's former Class A and Class B members transferred their ownership rights to CCP Acquisition Limited (CAL) and three executive members of management. Upon transfer, CAL became the sole Class A Member of the Company and the three executive members of management became Class B Members.

On May 17, 2006, CAL transferred its ownership interest in the Company to CCP Holdings, LLC (CH), an affiliate of CAL by common ownership.

On June 30, 2006, Mercy Health Plans, Inc. (MHP) purchased a newly issued member interest in the Company. As a result, MHP obtained 50% ownership of the Company. The ownership percentages of the existing owners, CH and certain members of management (collectively), were reduced to 40.05% and 9.95%, respectively. CH remained the sole Class A Member, the three executive members of management remained the sole Class B Members and MHP became the sole Class C Member of Alliance for Community Health, LLC. Simultaneously, the Company's "doing business as" changed from Community CarePlus to Mercy CarePlus.

As a result of the June 30, 2006 change in ownership, the Company has three classes of members: Classes A, B and C. Voting rights are reserved for only Classes A and C. Class A receives priority in distributions over other classes.

On September 29, 2006, the Class C ownership interest of MHP was transferred to Sisters of Mercy Health System (SMHS), an affiliate of MHP.

At September 30, 2007, the Company had membership of approximately 68,000.

The Company is structured as a network model HMO. As such, the Company has contracts with networks for physician and hospital services. Each member chooses a primary care physician (PCP) who is under contract with the Company. The Company has also negotiated contracts with hospitals, physician specialists, and other health care providers to satisfy the necessary medical care needs of its eligible members that extend beyond the level of care provided by the PCP. The Company has sub-capitation agreements with some of its PCPs under the Medicaid program that are structured so that the PCP receives monthly payments based upon the number, age and sex of members associated with the PCP. The Company also has sub-capitation agreements with its network providers for mental health, transportation, dental and vision services that are structured so that the respective providers receive monthly payments based upon the number of members enrolled with the Company.

The Company contracts with NovaSys Health Network, LLC (NovaSys) to provide third-party administrative services under a service agreement which provides for the Company to pay NovaSys a per member per month (PMPM) processing fee. Services provided by NovaSys include, but are not limited to, claims and revenue processing, information systems, and management reporting systems. The initial term of the contract was from September 1, 1998 through August 31, 2001. The term of the current contract is October 1, 2005 through September 30, 2008.

Basis of Presentation

The Company's unaudited condensed interim financial statements are presented on the accrual basis of accounting in conformity with accounting practices generally accepted in the United States of America (GAAP).

The financial statements have been prepared under the assumption that users of the interim financial data have either read or have access to our audited financial statements for the fiscal year ended December 31, 2006. Accordingly, certain disclosures that would substantially duplicate the disclosures contained in the December 31, 2006 audited financial statements have been omitted. These unaudited condensed interim financial statements should be read in conjunction with our December 31, 2006 audited financial statements.

In the opinion of management, all adjustments considered necessary for a fair presentation of the results as of the date and for the interim periods presented, which consist solely of normal recurring adjustments, have been included. The condensed results of income for the current interim period are not necessarily indicative of the results for the entire year ending December 31, 2007.

Use of Estimates

The preparation of financial statements in conformity with accounting practices generally accepted in the United States requires management to make estimates and assumptions that affected 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. Actual results could differ from those estimates.

The Company's most significant estimates relate to medical costs payable, revenues, contingent liabilities and asset valuations, allowances and impairments. These estimates are adjusted each period, as more current information becomes available. The impact of any changes in estimates is included in the determination of earnings in the period in which the estimate is adjusted. The following describes significant changes in estimates and their impact on net income and members' equity for the nine months ended September 30, 2007 and 2006:

Claims Payable:

1. During 2007 the Company changed certain actuarial assumptions, which affect the calculation of claims payable. Specifically, the Company changed its assumptions regarding the timing of the recognition of inpatient charges. Additionally, the actuarial margin of error was increased from 6% to 10%, primarily due to reclassification of loss adjustment expense from the accrued expenses category. These changes increased medical and hospital expenses by approximately $2,000 for the nine month period ended September 30, 2007.

Premiums Receivable

Premiums receivables are amounts due from the State of Missouri pursuant to the terms of the Medicaid Managed Care Contract.

ALLIANCE FOR COMMUNITY HEALTH LLC
d/b/a MERCY CAREPLUS

NOTES TO CONDENSED UNAUDITED FINANCIAL STATEMENTS

Claims Payable

Claim payable consists of case reserves for claims received and estimates of losses incurred but not reported on unpaid benefits. Estimates of losses incurred but not reported are actuarially determined based on prior experience modified for current trends as well as industry data to aid in this estimation process.

Revenue Recognition

The Company recognizes premiums from the State of Missouri as income in the period to which health care coverage relates.

Note B — Related Party Transactions

Total medical and hospital claim payments made by the Company to the current Members and their affiliates during nine months ended September 30, 2007 and 2006 were $12,170 and $5,020.

Note C — Subsequent Events

On October 31, 2007, all of the ownership interests in the Company were sold to Molina Healthcare, Inc., a publicly traded corporation which operates government-sponsored health insurance plans in eight states. The sale was subject to the terms of a purchase agreement executed by the parties on September 6, 2007 and approved by the Missouri Department of Insurance, Financial Institutions and Professional Registration on October 22, 2007.

UNAUDITED PRO FORMA FINANCIAL INFORMATION

The unaudited pro forma combined financial information presented below gives effect to the purchase of Mercy CarePlus ("Mercy CarePlus") by Molina Healthcare, Inc. ("the Company") and the issuance of the portion of the senior convertible notes that the Company used to fund the acquisition as if the acquisition had occurred and the senior convertible notes had been issued on September 30, 2007 for purposes of the unaudited pro forma combined balance sheet, and as of January 1, 2006 for purposes of the unaudited pro forma combined statements of income for the nine months ended September 30, 2007 and the year ended December 31, 2006. The unaudited pro forma combined balance sheet and statements of income include the historical amounts of the Company and Mercy CarePlus, adjusted to reflect the impact of acquisition.

On November 1, 2007, the Company completed its acquisition of the Alliance for Community Health, L.L.C., a Missouri limited liability company doing business as Mercy CarePlus ("Mercy CarePlus"). Under the terms of the transaction, the Company acquired all of the outstanding limited liability company ownership interests of Mercy CarePlus from Sisters of Mercy Health System, a Missouri nonprofit corporation; CCP Holdings, LLC, a Missouri limited liability company; and certain Mercy CarePlus executives in consideration for a base purchase price of $80 million subject to adjustments.

In accordance with FAS 141, the purchase price has been allocated to the estimated fair value of Mercy CarePlus assets acquired and liabilities assumed. The excess of purchase price over the fair value of net tangible assets acquired has been primarily allocated to certain identifiable intangible assets and goodwill. The purchase price allocation may be adjusted upon completion of the final valuation of the assets and liabilities of Mercy CarePlus and certain earn-out provisions. The effect of any such adjustments cannot be determined at this time.

The Unaudited Pro Forma Condensed Consolidated Financial Statements do not give effect to any synergies that may be realized as a result of the acquisition, nor do they give effect to any nonrecurring/unusual restructuring charges that may be incurred as a result of the integration of Mercy CarePlus. The amount of such charges cannot be reasonably determined at this time.

The Unaudited Pro Forma Condensed Consolidated Financial Statements are provided for informational purposes only and do not purport to present the combined financial position or results of operations of Molina Healthcare, Inc. and Mercy CarePlus had the acquisition occurred on the dates specified, nor are they necessarily indicative of the results of operations that may be expected in the future.

The pro forma information should be read in conjunction with the historical consolidated financial statements of Molina Healthcare, Inc., which have been filed with the Securities and Exchange Commission. The audited financial statements of Mercy CarePlus for the year ended December 31, 2006 and the unaudited financial statements for the nine-month period ended September 30, 2007, are filed as part of this Current Report on Form 8-K/A. The Unaudited Pro Forma Condensed Consolidated Financial Statements should be read in conjunction with each company's historical financial statements and the notes thereto. Certain accounts of Mercy CarePlus have been reclassified to be consistent with Molina Healthcare, Inc.'s presentation.

Exhibit 99.3

Unaudited Pro Forma Combined Balance Sheet
September 30, 2007
(amounts in thousands)

	Molina Historical	Mercy Historical	Pro Forma Adjustments	(a)	Pro Forma
ASSETS					
Current assets:					
Cash and cash equivalents	$447,594	$ 9,046	$ (7,557)	(b)	$ 449,083
Investments	108,161	8,000			116,161
Receivables	124,145	15,861			140,006
Deferred income taxes	577	366			943
Prepaid and other current assets	11,424	213			11,637
Total current assets	691,901	33,486	(7,557)		717,830
Property and equipment, net	47,431	242			47,673
Goodwill & intangible assets	133,502	19,598	57,329	(c)	210,429
Restricted investments	27,762	501			28,263
Long-term investments		1,645			1,645
Receivable for ceded life and annuity contracts	30,929				30,929
Other assets	14,492	36			14,528
Total assets	$946,017	$ 55,508	$ 49,772		$1,051,297
LIABILITIES AND STOCKHOLDERS’ EQUITY					
Current liabilities					
Medical claims and benefits payable	$308,722	$ 12,609			$ 321,331
Deferred revenue	42,043				42,043
Income taxes payable	1,242	326			1,568
Accounts payable & accrued liabilities	61,778	1,818	4,283	(d)	67,879
Total current liabilities	413,785	14,753	4,283		432,821
Long-term debt, less current maturities	20,000		80,000	(e)	100,000
Deferred income taxes	1,056	252	5,992	(f)	7,300
Liability for ceded life and annuity contracts	30,929				30,929
Other long-term liabilities	11,808				11,808
Total Liabilities	477,578	15,005	90,275		582,858
Commitments and contingencies					
Stockholders’ equity:					
Common stock	28				28
Paid in Capital	181,841	40,503	(40,503)	(g)	181,841
Comprehensive Income	111				111
Retained earnings	306,849				306,849
Treasury stock	(20,390)				(20,390)
Total stockholders’ equity	468,439	40,503	(40,503)		468,439
Total liabilities and stockholders’ equity	$946,017	$ 55,508	$ 49,772		$1,051,297

See accompanying notes.

Exhibit 99.3

Unaudited Pro Forma Combined Statements of Income
Nine Months Ended September 30, 2007
(amounts in thousands)

	MOH Historical	Mercy Historical	Pro Forma Adjustments	(a)	Pro Forma
Revenue:					
Premium revenue	$ 1,791,764	$ 126,906	$		$ 1,918,670
Investment income	21,061	1,059			22,120
Total revenue	1,812,825	127,965	—		1,940,790
Expenses:					0
Medical care costs	1,519,244	103,953			1,623,197
Marketing, general and administration expense	204,831	8,886			213,717
Depreciation and amortization	20,274	157	1,842	(h)	22,273
Impairment charge on purchased software	782				782
Total expenses	1,745,131	112,996	1,842		1,859,969
Operating income	67,694	14,969	(1,842)		80,821
Other expense:					0
Interest expense	(2,380)		(2,527)	(i)	(4,907)
Total other expense	(2,380)		(2,527)		(4,907)
Income (loss) before income taxes	65,314	14,969	(4,369)		75,914
Income tax expense (benefit)	24,895	5,147	(1,661)	(j)	28,381
Net income (loss)	$ 40,419	$ 9,822	$ (2,708)		$ 47,533

See accompanying notes.

MOLINA HEALTHCARE, INC.
NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data)
September 30, 2007

a. **Purchase accounting**. The Mercy CarePlus acquisition is accounted for under the purchase method of accounting. Accordingly, the amount of the consideration paid is allocated to assets acquired and liabilities assumed based on their estimated fair values, The excess of consideration paid over the estimated fair value of the tangible assets acquired and liabilities assumed has been preliminarily allocated to certain identifiable intangible assets and goodwill. The purchase price allocation may be adjusted upon completion of the final valuation of the assets and liabilities of Mercy CarePlus and settlement of contingent payments to sellers, as discussed in more detail below. The effect of any such adjustments cannot be determined at this time.

b. **Purchase consideration.** Purchase price consideration of $80,000 was paid on October 30, 2007 and the acquisition was fully funded through issuance of the senior convertible debt. Immediately prior to closing of the purchase transaction, with the approval by the Missouri Department of Insurance, a dividend of $7,335 was declared and paid to the sellers in accordance with the Purchase Agreement. This dividend payment represented Mercy CarePlus' capital as of October 31, 2007 less 300% of its risk-based capital (RBC) authorized control level (ACL). A final RBC calculation will be made within 120 days following the closing date. Based upon the final RBC calculation an additional dividend payout will be made to reduce the multiplier of ACL from 300% to 200%. The estimated amount of this additional dividend is estimated to be approximately $4,283. Furthermore, an additional contingent payment of $5,000 will be paid to the sellers if certain financial targets are met by Mercy CarePlus for the twelve month period ending June 30, 2008. These adjustments may increase or decrease the purchase price consideration. Any contingent consideration, when finally determined, will be reported as an adjustment to goodwill. The Mercy CarePlus Purchase also required $222 of direct transaction costs.

The net reduction in cash and cash equivalents of $7,557 comprises the following estimated items:

Purchase price consideration	$ (80,000)
Direct transaction costs (see below)	(222)
Subtotal	(80,222)
Borrowings to fund the acquisition	80,000
Pre-closing dividends (based on 300% of RBC)	(7,335)
Net reduction in cash and cash equivalents	$ (7,557)

c. **Goodwill and intangible assets.** We intend to determine the fair value of net assets of Mercy CarePlus as of October 31, 2007. The purchase price will be allocated to the fair value of Mercy CarePlus' net assets, including identified intangible assets, such as the provider network and enrolled member list. The following is a preliminary analysis of goodwill and intangible assets recognized in connection with the acquisition:

Purchase price consideration	$ 80,000
Direct transaction costs	222
Assumed total purchase price	80,222
Deferred tax liability on identifiable intangible assets (@ 38% tax rate)	5,992
Pre-closing dividends (based on 300% of RBC)	7,335
Dividends to be paid out on 2/28/08 (see above)	4,283
Mercy's historical net assets as of September 30, 2007	(40,503)
Acquisition cost in excess of net assets acquired	$ 57,329

Allocation of acquisition cost in excess of net assets acquired:

Allocation to identifiable intangible assets	
Provider network	$ 5,926
Enrolled member list	9,840
Total identifiable intangible assets	15,766
Goodwill	41,563
Total goodwill and other intangible assets:	$ 57,329

- **d. Accounts payable and accrued liabilities.** Pro forma adjustment represents future dividends to be paid out to sellers upon final determination of Mercy CarePlus' RBC calculation (see Note b).
- **e. Long-term debt.** On October 11, 2007, we issued $200,000 of senior convertible debt at an interest rate of 3.75%. Part of the proceeds was used to fund the Mercy CarePlus acquisition.
- **f. Deferred income taxes.** Pro forma adjustment to increase deferred tax liabilities related to the estimated identifiable intangible assets of $15,766 as described in Note c above. Upon finalization of purchase accounting, the amount of deferred tax liability will change as final purchase price allocations are made to the fair values of Mercy CarePlus' assets. For purposes of calculating the pro forma adjustments an effective tax rate of 38% was used.
- **g.** Paid in capital is reduced by the equity of Mercy CarePlus at September 30, 2007 ($40,503).
- **h. Amortization of intangibles.** Pro forma adjustment reflects the amortization of the Medicaid medical provider network in the state of Missouri valued at approximately $5,926 arising from the acquisition that is classified as an identifiable intangible asset. This identifiable intangible asset is being amortized on a straight-line basis over 10 years. Pro forma adjustment also reflects the amortization of enrolled member list in the state of Missouri valued at approximately $9,840 arising from the acquisition that is classified as an identifiable intangible asset. The value of member list is being amortized on a straight-line basis over 5 years. The pro forma amortization expense is partially offset by elimination of the amortization of Mercy CarePlus' historical intangibles assets of $78 and $0 for the nine months ended September 30, 2007 and year ended December 31, 2006.
- **i. Interest expense.** Pro forma adjustment to reflect an increase in interest expense resulting from the issuance of senior convertible debt of which a portion was used to fund the acquisition. Interest rate used for pro forma purposes is 3.75% per annum. Additionally, approximately $6,471 of underwriting discount and fees are being capitalized and amortized over the term of the debt. The portion used for this acquisition is 40% of the entire debt issuance and as such, 40% of the underwriting discount and fees is being amortized for pro forma purposes.
- **j. Provision for income taxes.** Pro forma adjustments reflect the tax effect of the acquisition at statutory rates in effect during nine months ended September 30, 2007 and the fiscal year ended December 31, 2006. For purposes of calculating the pro forma adjustments a consolidated as adjusted effective tax rate of 38.0% was used for both periods.