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): July 1, 2004

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

Delaware	**1-31719**	**13-4204626**
(State of incorporation)	**(Commission File Number)**	**(I.R.S. Employer Identification Number)**

One Golden Shore Drive, Long Beach, California 90802
(Address of principal executive offices)

Registrant’s telephone number, including area code: (562) 435-3666

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:

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

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

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

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

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 July 16, 2004, 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 Health Care Horizons, Inc. are listed in 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 giving pro forma effect to our acquisition of Health Care Horizons, Inc. as of January 1, 2004 and 2003 for statement of operations purposes and as of June 30, 2004 for balance sheet purposes are filed as Exhibit 99.3 hereto and are hereby incorporated by reference.

(c) Exhibits.

Exhibit No.	Description
23.1	Consent of KPMG LLP.
99.1	Audited financial statements of Health Care Horizons for the fiscal year ended December 31, 2003.
99.2	Unaudited financial statements of Health Care Horizons for the six month periods ended June 30, 2004 and 2003.
99.3	Unaudited pro forma condensed financial statements.

SIGNATURES

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

MOLINA HEALTHCARE, INC.

Date: September 13, 2004

By: /s/ *MARK L. ANDREWS*

Mark L. Andrews
Executive Vice President, Legal Affairs,
General Counsel and Corporate Secretary

EXHIBIT INDEX

Exhibit No.	Description
23.1	Consent of KPMG, LLP, Independent Auditors
99.1	Audited financial statements of Health Care Horizons for the fiscal year ended December 31, 2003.
99.2	Unaudited financial statements of Health Care Horizons for the six month periods ended June 30, 2004 and 2003.
99.3	Unaudited pro forma condensed financial statements.

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the registration statement (Form S-8) pertaining to the Molina Healthcare, Inc. 2000 Omnibus Stock and Incentive Plan, 2002 Equity Incentive Plan and 2002 Employee Stock Purchase Plan, of our report dated February 27, 2004, except for note 12, which is as of July 1, 2004, with respect to the consolidated balance sheet of Health Care Horizons, Inc. as of December 31, 2003, and the related consolidated statements of operations, shareholders' equity and cash flows for the year ended December 31, 2003, which report appears in the Form 8-K/A of Molina Healthcare, Inc. dated September 13, 2004.

KPMG LLP

Albuquerque, New Mexico
September 13, 2004

Exhibit 99.1

[GRAPHIC]

HEALTHCARE HORIZONS, INC.
AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2003

(With Independent Auditors' Report Thereon)

Independent Auditors' Report

The Board of Directors
Healthcare Horizons, Inc.:

We have audited the accompanying consolidated balance sheet of Healthcare Horizons, Inc. (the Company) and subsidiaries as of December 31, 2003, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and subsidiaries as of December 31, 2003, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Albuquerque, New Mexico
February 27, 2004, except for note 12,
which is as of July 1, 2004

HEALTHCARE HORIZONS, INC.
AND SUBSIDIARIES

Consolidated Balance Sheet

December 31, 2003

Assets	
Current assets:	
Cash and cash equivalents	$ 31,174,070
Investment securities	10,541,476
Premium receivables, net of allowance for doubtful accounts of $17,649	6,085,947
Provider receivables, net of allowance for doubtful accounts of $585,988	1,125,428
Reinsurance claims receivable	735,374
Other receivables	875,518
Prepaid expenses	960,738
Deferred tax asset (note 8)	205,900
Other	58,640
Total current assets	51,763,091
Other assets:	
Investment securities, restricted (note 3)	7,127,029
Property, plant, and equipment, at cost, net of accumulated depreciation and amortization of $3,684,986 (notes 4 and 6)	1,540,748
Goodwill, net	7,320,691
Deferred tax asset (note 8)	347,140
Total other assets	16,335,608
Total assets	$ 68,098,699
Liabilities and Shareholders' Equity	
Current liabilities:	
Healthcare services payable (note 5)	$ 28,161,000
Accrued claim adjustment expenses	666,000
Premium tax payable	4,176,796
Provider incentives payable	1,893,455
Accrued expenses	1,791,764
Accounts payable	184,997
Current installments of long-term debt (note 6)	2,188,811
Current capital leases payable (note 6)	145,657
Income taxes payable (note 8)	2,461,688
Accrued compensation	1,606,435
Unearned premiums	772,718
Total current liabilities	44,049,321
Long-term debt, excluding current installments (note 6)	4,729,595
Long-term capital leases payable, excluding current portion (note 6)	591,715
Deferred tax liability (note 8)	372,750
Total liabilities	49,743,381
Shareholders' equity (note 11):	
Common stock, voting, $0.01 par value. Authorized 5,000,000 shares; issued and outstanding 374,157 shares (note 9)	3,742
Additional paid-in capital	4,734,186
Retained earnings	13,617,390
Total shareholders' equity	18,355,318
Commitments and contingencies (notes 3, 6, and 10)	
Total liabilities and shareholders' equity	$ 68,098,699

See accompanying notes to consolidated financial statements.

HEALTHCARE HORIZONS, INC.
AND SUBSIDIARIES

Consolidated Statement of Operations

Year ended December 31, 2003

Operating revenue:	
Premiums earned	$342,603,272
Third-party administration revenue	1,612,266
Commissions and other operating revenue	372,375
Total operating revenue	344,587,913
Operating expenses:	
Healthcare services and claims (note 5)	296,584,350
Salaries and benefits	17,572,309
General and administrative	21,236,697
Depreciation	637,923
Total operating expenses	336,031,279
Operating income	8,556,634
Other income (expense):	
Interest expense	(549,061)
Interest income	451,530
Total other income (expense)	(97,531)
Income before income taxes	8,459,103
Income tax expense (note 8)	3,099,000
Net income	$ 5,360,103

See accompanying notes to consolidated financial statements.

HEALTHCARE HORIZONS, INC.
AND SUBSIDIARIES

Consolidated Statement of Changes in Shareholders' Equity

Year ended December 31, 2003

	Common stock		Additional paid-in capital	Retained earnings	Total equity
	Shares	Amount			
Balance at December 31, 2002	369,539	3,695	4,566,593	8,257,287	12,827,575
Redemption of stock	(1,132)	(11)	(19,799)	—	(19,810)
Issuance of stock	5,750	58	187,392	—	187,450
Net income	—	—	—	5,360,103	5,360,103
Balance at December 31, 2003	374,157	$ 3,742	4,734,186	13,617,390	18,355,318

See accompanying notes to consolidated financial statements.

**HEALTHCARE HORIZONS, INC.
AND SUBSIDIARIES**

Consolidated Statement of Cash Flows

Year ended December 31, 2003

Cash flows from operating activities:	
Net income	$ 5,360,103
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	637,923
Deferred taxes	386,000
Provision for uncollectible accounts	67,279
Change in assets and liabilities:	
Premium receivables	(662,221)
Provider receivables	(428,225)
Reinsurance receivables	(533,497)
Other receivables	(307,996)
Prepaid expenses and other assets	(325,912)
Healthcare services payable and accrued claim adjustment expenses	(7,033,000)
Provider incentives payable	905,455
Accounts payable, accrued expenses, and premium tax payable	3,381,944
Income taxes payable	1,138,000
Other liabilities	(826,477)
Total adjustments	(3,600,727)
Net cash provided by operating activities	1,759,376
Cash flows from investing activities:	
Purchase of restricted investments	(375,050)
Purchase of property, plant, and equipment	(772,742)
Proceeds from sale of property, plant, and equipment	92,579
Net cash used in investing activities	(1,055,213)
Cash flows from financing activities:	
Repayment of long-term debt and capital lease obligations	(2,417,743)
Redemption of common stock	(19,810)
Proceeds from issuance of common stock	187,450
Net cash used in financing activities	(2,250,103)
Net decrease in cash and cash equivalents	(1,545,940)
Cash and cash equivalents, beginning of the year	32,720,010
Cash and cash equivalents, end of the year	$ 31,174,070
Supplemental cash flow information:	
Cash paid for interest	$ 549,061
Cash paid for taxes	1,575,000
Noncash financing activities–property, plant, and equipment acquired under capital leases	795,716

See accompanying notes to consolidated financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

The consolidated financial statements include all companies of which Healthcare Horizons, Inc. (the Company or HCH) directly or indirectly has majority ownership or otherwise controls. Significant intercompany accounts and transactions have been eliminated. The Company's consolidated financial statements include the accounts of its wholly owned subsidiaries, HCH Administration (HCHA), and Cimarron Health Plan (CHP). HCH provides services to managed healthcare organizations for the development, operation, and management of healthcare delivery systems. HCHA provides third-party administration (TPA) services for both the self-insured and fully insured markets.

CHP is a licensed health maintenance organization (HMO) in New Mexico.

(b) Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, the Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

(c) Investment Securities

Investment securities as of December 31, 2003 consist of a $300,000 U.S. Treasury note and various certificates of deposits totaling $17,368,505. The Company classifies its investments securities as held-to-maturity, based on its ability and intent to hold the securities until maturity. These securities are recorded at cost, which approximate their fair values at December 31, 2003.

Investment securities that are unrestricted and have remaining maturities of less than one year are classified as current assets in the accompanying balance sheets. Investment securities that are restricted or have remaining maturities greater than one year are included in the other assets section of the accompanying balance sheets. All investment securities at December 31, 2003 have remaining maturities of less than one year. The U.S. Treasury note matures in February 2004 and is restricted (see note 3). Interest income on investment securities is recorded when earned.

(d) Revenue Recognition

Premiums are recognized in the month that members are entitled to healthcare services. Premiums collected in advance are recorded as unearned premiums.

Coordination of benefits and subrogation are recognized in the period such amounts are determined to be recoverable from other healthcare providers.

Revenue related to third-party administration activity is recognized on the accrual basis as services are performed.

(e) Property, Plant, and Equipment

Property, plant, and equipment are stated at cost, less accumulated depreciation. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets, with the exception

(Continued)

of leasehold improvements, which are depreciated over the lesser of the useful life of the improvement or the expected term of the related lease. Equipment and furniture are depreciated over three to four years, software is depreciated over two years, and leasehold improvements are depreciated over five years. Repairs and maintenance of property, plant, and equipment are charged to expenses as incurred.

(f) Impairment of Long-Lived Assets

In accordance with SFAS No. 144, long-lived assets, such as property, plant, and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

(g) Goodwill

Goodwill is tested annually for impairment, and is tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value. This determination is made at the reporting unit level and consists of two steps. First, the Company determines the fair value of a reporting unit and compares it to its carrying amount. Second, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation, in accordance with SFAS No. 141, *Business Combinations*. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill.

(h) Medical Claims Payable and Healthcare Services Expense

Except for capitation contracts as discussed below, medical claims payable and healthcare services expense are based upon the accumulation of cost estimates for unpaid claims reported prior to the close of the accounting period, together with a provision for the current estimates of the probable cost of claims that have been incurred but have not yet been reported. Such estimates are based on many variables, including estimates of unreported claims using historical and statistical information and other factors. The methods for making such estimates and for establishing the resulting reserves are continually reviewed and updated, and any adjustments resulting therefrom are reflected in current operations. Estimates of reserves are subject to the impact of changes in the regulatory environment, economic conditions, and other factors. Given the inherent variability of such estimates, actual liabilities could differ from the amounts provided. While the ultimate amount of claims and the related expenses paid are dependent on actual claims incurred, management is of the opinion that the reserves for claims are adequate to cover such claims and expenses.

CHP contracts with healthcare providers on a fee-for-service or capitated basis to obtain access to healthcare services for its members. As an incentive to contain healthcare services expenses, a retention of up to 15% of payments is withheld from certain fee-for-services providers. Providers bear the risk that amounts withheld will not be returned if costs exceed contracted levels. Depending on actual cost experience, provider groups are eligible to earn incentive payments in addition to the return of amounts withheld if utilization is below contracted levels.

Healthcare expenses are accrued in the period during which services are provided and are based, in part, on estimates of accrued services incurred but not yet reported by providers to CHP.

(i) Reinsurance

CHP has entered into agreements with an insurance company to provide reinsurance for its members. Coverage under these agreements are generally between 80% and 90% of excess eligible healthcare services with an annual deductible of $250,000 per member. This agreement provides coverage up to $2,000,000 per member per year with a maximum lifetime limit of $5,000,000 per member. This agreement expires June 30, 2004.

Premiums paid to the reinsurer during 2003 were $2,064,102 and are netted against premiums in the accompanying consolidated statements of operations. Recoveries for covered charges during 2003 were $1,656,215 and are netted against health services and claims in the accompanying consolidated statements of operations.

Failure of reinsurers to honor their obligations could result in losses to the Company, as reinsurance arrangements do not relieve the Company from its obligations to providers. The Company evaluates the financial condition of its reinsurer to minimize its exposure to losses from reinsurer insolvency. Management believes that its reinsurer is financially sound and will be able to meet its contractual obligations; therefore, no allowance for uncollectible amounts have been included in the accompanying consolidated financial statements.

(j) Assessments and Premium Tax

CHP is a member of the New Mexico Medical Insurance Pool (NMMIP) and the New Mexico Health Insurance Alliance (NMHIA), which are risk pools for individuals who are unable to obtain health insurance on a voluntary basis. Pool members share in operating results of the pools proportionate to their share of health insurance premiums written. CHP expenses risk pool assessments in the year the related premiums are recorded and accrues for anticipated assessments based on historical experience.

The State of New Mexico assesses a tax of 3% on gross premium revenue. Under the premium tax regulations, a credit of 30% of the NMMIP assessment and a credit of 50% of the NMHIA assessment is applied against the total premium tax otherwise due. The Company accrues premium tax offsets as an asset upon accrual of the underlying premium tax liability. Premium tax offsets of approximately $710,000 as of December 31, 2003 are netted against premium tax payable in the accompanying balance sheets.

(Continued)

(k) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing 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 expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

CHP is subject to federal income tax and pays premium tax under regulation and, therefore, is exempt from New Mexico State income tax.

(l) Advertising Costs

Advertising costs are expensed as incurred. Advertising costs amounted to approximately $1,165,000 during 2003 and are included in general and administrative expenses in the accompanying consolidated statements of operations.

(m) Stock-Based Compensation

On January 1, 2003, the Company adopted SFAS No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure*, which amended the disclosure requirements of SFAS No. 123, *Accounting for Stock-Based Compensation*. The Company applies the intrinsic value-based method of accounting for stock options prescribed by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations in accounting for its fixed plan stock options. Under this method compensation expense would be recorded on the date of grant only if the fair value of the underlying stock exceeded the exercise price. SFAS No. 123, *Accounting for Stock-Based Compensation*, established accounting and disclosure requirements using a fair value-based method of accounting for stock-based employee compensation plans. As allowed by SFAS No. 123, the Company has elected to continue to apply the intrinsic value-based method of accounting described above, and has adopted only the disclosure requirements of SFAS No. 123.

The following table illustrates the effect on net income if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation.

Net income, as reported	$5,360,103
Fair value of options	(7,376)
Net income, pro forma	$5,352,727

(Continued)

The per share weighted-average fair value of stock options, granted in 2001 at a price equal to the market value of the underlying common stock on the grant date, was $2.69. The fair value was estimated using the Black-Scholes pricing model with the following weighted average assumptions:

Expected life (years)	3.58
Risk free interest rate	4.66%
Dividend yield	—
Volatility	—

(n) Financial Instruments

The Company's financial instruments are cash and cash equivalents, receivables, accounts payable, and debt and leases payable. Because of their nature, the carrying amounts of the Company's financial instruments approximate their fair values.

(o) Use of Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying amount of property, plant and equipment; goodwill; valuation allowances for receivables and deferred income tax assets; healthcare services payable; accrued claims adjustment expenses; and provider incentives payable. Actual results could differ from those estimates.

(2) Business and Credit Concentrations

The Company has three lines of business – Medicaid managed care, commercial managed care and third party administration of self-funded health insurance plans. The Company's insurance business operates solely within the State of New Mexico.

The Medicaid business is conducted under a single contract with the Human Services Department of the State of New Mexico. The contract is based on the June 30 fiscal year of the State of New Mexico, and is subject to a request for proposal process every four years, and rate and benefit negotiations every one or two years. The next request for proposal is effective for fiscal year beginning July 1, 2005, and the next rate and benefit negotiation is effective for fiscal year beginning July 1, 2004. This contract accounts for approximately two-thirds of the Company's revenues and can be canceled on 60 days notice. The associated healthcare premiums from the State of New Mexico for the year ended December 31, 2003 were approximately $230,811,000. The Company serves approximately 25% of the eligible membership in the State's Medicaid program. The membership is in all counties of the State.

(Continued)

The commercial business accounts for slightly less than one-third of the Company's revenues and consists of contracts with approximately 700 groups, all within New Mexico.

The third-party administration business provides less than 1% of the Company's revenue.

(3) Statutory and Contractual Reserves

As a condition of licensure with the State of New Mexico, CHP is required to maintain minimum levels of net worth (as defined) and have on deposit in segregated accounts a minimum of $300,000. As of December 31, 2003 this requirement was met through an investment in a U.S. Treasury note for $300,000, and an investment in a certificate of deposit for $100,000. The restricted assets can only be used at the direction of the Superintendent of Insurance of the State of New Mexico.

Pursuant to provisions of the Company's Medicaid contract with the State of New Mexico, CHP is required to have on deposit, in a segregated account, an amount equal to 3% of cash premiums received in the first year of the contract. The required deposits at December 31, 2003 of approximately $6.7 million, exceed the minimum requirements.

Interest earned on these assets is not restricted.

(4) Property, Plant, and Equipment

Property, plant, and equipment at December 31, 2003 are summarized as follows:

Equipment and furniture	$ 4,944,437
Leasehold improvements	281,297
	5,225,734
Less accumulated depreciation and amortization	(3,684,986)
Total	$ 1,540,748

(Continued)

(5) Healthcare Services Payable

Activity in the liability for healthcare services payable for 2003 is summarized as follows:

Balance at beginning of year	$ 34,991,000
Incurred related to:	
Current year	298,131,583
Prior year	(1,547,233)
	296,584,350
Paid related to:	
Current year	(269,970,583)
Prior year	(33,443,767)
	(303,414,350)
Balance at end of year	$ 28,161,000

The provision for prior year's healthcare services payable decreased by $1,547,233 because of differences between actual developments and actuarial estimates.

(Continued)

(6) Long-Term Debt and Capital Lease Obligations

Long-term debt and capital lease obligations consisted of the following at December 31, 2003:

Note payable by HCH to First State Bank, matures on January 5, 2009; due in monthly installments of $105, 992; including interest at prime less 0.5% (3.5% at December 31,2003); secured by shares of CHP common stock and equipment	$5,815,270
Note payable by HCH to First State Bank, matures on October 1, 2004; due in monthly installments of $118, 698, including interest at prime (4% at December 31, 2003); secured by shares of CHP common stock and equipment	1,103,136
Total long term debt	6,918,406
Less current installments	2,188,811
Total long-term debt, excluding current installments	$4,729,595
Capital lease obligations, imputed interest rate of 5.7% payable in monthly installments of $15,346 through June 2005, secured by leased equipment	$ 737,372
Less current installments	145,657
Total capital lease obligations, excluding current installments	$ 591,715

Future maturities of long-term debt and capital lease obligations under borrowings in place at December 31, 2003 are as follows:

	Long-term debt	Capital lease obligations
Year ending December 31:		
2004	$2,696,280	199,498
2005	1,271,905	184,152
2006	1,271,905	184,152
2007	1,271,905	184,152
2008	1,258,678	92,076
	7,770,673	844,030
Portion of obligations representing interest	(852,267)	(106,658)
	$6,918,406	737,372

The Company has a revolving bank line of credit with a credit limit of $3,000,000 at December 31, 2003. Interest on the line of credit is at the prime rate as quoted in the money section of the Wall Street Journal less 0.5% and is payable monthly. The line of credit expires on April 5, 2004. As of December 31, 2003, no amounts have been drawn on the line of credit.

The Company's debt agreements contain the following significant restrictions: a) current ratio of not less than 1.1 to 1 (current assets are defined in the debt agreement to included restricted investments), b) debt to worth ratio of less than 2.0 to 1, c) quarterly earnings before income taxes, interest, depreciation and amortization of not less than $1 million, d) written approval for all capital acquisitions more than $500,000 in the aggregate, e) cash and cash equivalents (defined in the debt agreement to include restricted investments) that are equal to or exceed the healthcare services payable, and f) statutory net worth of not less than 105% of the minimum mandated by the insurance division of the State of New Mexico.

In 2003 the Company made capital expenditures in connection with its move to a new home office that were in excess of the amounts allowed under covenants in its note agreements with First State Bank. The Company sought and obtained a waiver of this covenant violation, which does not expire. However, the Company will be subject to the same capital expenditure limitation in future years. The Company is in compliance with all other significant restrictions.

The gross amount of equipment and related accumulated amortization recorded under capital leases at December 31, 2003, were as follows:

Equipment	$795,716
Less accumulated depreciation	128,216
	$667,500

Amortization of assets held under capital leases is included in depreciation expense.

(7) Employee Benefit Plans

HCH sponsors a 401(k) plan with an employee stock ownership plan feature for Company employees. Employees who have completed one year of service and have attained the age of 21 are eligible to participate in the plan. Employees may elect to contribute a percentage of their salary to the plan up to the maximum percentage allowable by taxing authorities. HCH matches the employee's contribution up to 3% of their salary. HCH may also make discretionary contributions to the plan. Vesting of the Company's contributions occurs on a graduated basis and is completed after six years. HCH's expense for matching contributions related to this plan was $266,238 during 2003. Upon termination of employment from the Company, participants may put their shares back to the Company based on the price established by the most recent valuation. At December 31, 2003, the Company's obligation pursuant to the put option on shares owned in the plan was $305,378 based on a $166.60 per share price.

(Continued)

(8) Income Taxes

The Company is incorporated in the United States and is subject to U.S. federal and state income taxes. Income tax expense is computed using the applicable tax rates in each jurisdiction.

Income tax expense for 2003 is as follows:

Current:	
U.S. federal	$2,406,000
State	307,000
	2,713,000
Deferred:	
U.S. federal	354,000
State	32,000
	386,000
Total	$3,099,000

The provision for income taxes at the Company's effective tax rate differed from the provision for income taxes at the statutory tax rate for 2003 as follows:

Computed tax expense at the expected statutory rate of 34%	$2,876,095
State taxes, net of federal effect	220,292
Meals and entertainment	2,613
Total income tax expense	$3,099,000

Deferred income tax assets (liabilities) at December 31, 2003 are as follows:

Deferred tax assets:	
Net operating loss	$ 347,140
Bad debts	6,120
Allowance for uncollectible provider recoveries	199,780
Total deferred tax assets	553,040
Deferred tax liabilities:	
Goodwill	(330,375)
Depreciation	(42,375)
Total deferred tax liabilities	(372,750)
Net deferred tax assets	$ 180,290

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. In order to fully realize the deferred tax assets, the Company will need to generate future taxable income of approximately $1.02 million prior to the expiration of the net operating loss carryforward in 2009. Based upon the level of historical taxable income and projections for future taxable income over the periods which the deferred tax assets are deductible, management believes it is more likely than not the Company will realize the benefits of these deductible differences. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

(9) Shareholders' Equity

The Company has a qualified stock option plan under which options have been granted. The Company has also granted options outside of the plan to employees and certain nonemployees.

Information concerning the Company's stock options is as follows:

Option exercise price	$12.50	$17.50	Total
Outstanding at December 31, 2002	6,000	34,287	40,287
Exercised	(5,000)	—	(5,000)
Canceled	(1,000)	—	(1,000)
Outstanding at December 31, 2003	—	34,287	34,287

At December 31, 2003, all $12.50 options had been exercised or had expired. Approximately 27,144 of the $17.50 options were exercisable at December 31, 2003. All the $17.50 options will expire in February 2005 and 2006 if not exercised.

(Continued)

(10) Commitments and Contingencies

Commitments

The Company is obligated under several noncancelable operating leases, primarily for office space and computer equipment.

Rental expense for operating leases was approximately $1,632,000 in 2003. Future minimum lease payments under noncancelable operating leases follow:

Year ending December 31:	
2004	$1,618,165
2005	1,590,905
2006	1,588,762
2007	1,587,696
2008	1,587,696
Thereafter	793,848
	$8,767,072

During 2001, the Company modified an agreement with the University of New Mexico Hospital (UNMH) under which it provides certain administrative services. In connection with the modification, UNMH prepaid annual contract fees of $450,000 to the Company and deferred a scheduled fee increase beyond its normally expected effective date. In consideration of the foregoing, the Company agreed to pay a sum (the Change Payment) to UNMH in the event of a change in control of the Company, a sale of all or substantially all of its assets or the assets of CHP, or a merger into another entity where the Company is not the survivor (a Corporate Transaction) before June 27, 2007. The Change Payment would be equal to $1,800,000 in the event of a change in control, or 7%, of the fair market value of consideration received by HCH or its shareholders, not less than $1,200,000 and not to exceed $5,000,000, in the event of a Corporate Transaction. This agreement may be nullified by the payment to UNMH of $1,800,000 fifteen months or more prior to a Change Payment event. No amounts have been recorded in the consolidated financial statements for this contingent liability.

Contingencies

The Company is subject to pending and threatened legal actions arising in the normal course of business. The Company has been named in a lawsuit certified as a class action by a group of pharmacies claiming that the pharmacies are entitled under New Mexico law to reimbursement rates in excess of those paid by the Company's contracted pharmacy benefit managers. The amounts claimed are significant. Though it is reasonably possible that the Company may eventually be determined to be liable for some amount of redress of the plaintiff's claims, the Company contends, based on consultation with legal counsel, that it is not liable for such reimbursement. The Company has not contracted directly with the plaintiffs as it contracts with pharmacy benefit managers who in turn contract with the pharmacies. The Company is vigorously contesting these claims and is currently unable to estimate the amount of future liability, if any.

The Company is involved in other claims in the ordinary course of its business, none of which, in the opinion of management, is material either individually or in the aggregate.

(11) Minimum Net Worth and Risk-Based Capital

At December 31, 2003, the preliminary statutory filing with the State of New Mexico indicated that CHP was required to maintain a net worth as defined of approximately $16,132,000 and was in compliance with the State of New Mexico's insurance statutes' minimum net worth requirement. Currently, the New Mexico insurance statutes require compliance with a defined minimum net worth and do not require compliance with the risk-based capital (RBC) standards established by the National Association of Insurance Commissioners. The RBC calculation serves as a benchmark for the regulation of insurance companies by state regulators. RBC provides for surplus formulas similar to target surplus formulas used by commercial rating agencies. The formulas specify various weighting factors that are financial balances or various levels of activity based on the perceived degree of risk and are set forth in the RBC requirements.

Without prior approval of its domiciliary superintendent, dividends from CHP to the Company are limited by the laws of the State of New Mexico in an amount that is based on restrictions relating to statutory surplus. No dividends were paid by CHP to the Company in 2003.

(12) Subsequent Events

On February 23, 2004, the Company announced that it had entered into an agreement and plan of merger with Molina Healthcare, Inc. (MHI) of Long Beach, California in which MHI would acquire all of the outstanding common stock of the Company in a cash transaction. That transaction closed on July, 1, 2004. The acquisition was effected in accordance with the Agreement and Plan of Merger dated as of February 23, 2004, by and among the Company, Molina Healthcare, Inc., a Delaware corporation, Molina NM Acquisition Corp., a Delaware corporation, and the Company's principal shareholders. Under the terms of the merger agreement, Molina NM Acquisition Corp. merged into Health Care Horizons, with Health Care Horizons as the surviving corporation.

The consideration for the merger was approximately $69 million, subject to adjustments. At the close of the acquisition, MHI extinguished $5.8 million of Health Care Horizon Bank debt. As of the effective time of the merger, each share of the Company's common stock was converted into the right to receive in cash the merger consideration (as defined in the merger agreement), divided by the number of shares of the Company's common stock outstanding as of the closing. All of the outstanding common stock of Molina NM Acquisition Corp. was converted into 100 shares of Health Care Horizons common stock. Effective as of August 1, 2004, CHP changed its name to Molina Healthcare of New Mexico, Inc.

Upon closing of the transaction, the contingent liability described in note 10 became due and payable. The liability was extinguished by the payment of $4.2 million by the shareholders of the Company (the Shareholders) from the proceeds received upon the sale of the Company.

On May 12, 2004, the Company and MHI announced that they had reached a definitive agreement to transfer the Company's commercial membership to Lovelace Sandia Health System, Inc. (Lovelace) following the consummation of the purchase of the Company by MHI. Effective August 1, 2004, the Company transferred its commercial membership to Lovelace in accordance with the terms of the agreement, receiving approximately $13.977 million in cash. MHI also incurred $265,000 in direct transaction costs. The Company will receive additional cash proceeds for each member who transferred to Lovelace between May 3, 2004 and July 31, 2004. In connection with the transfer of Federal employees to buyer under the Federal Employee Health Benefits Program Contract, the Company could receive additional consideration up to $2.325 million should the United States Office of Personnel Management (OPM) consent to the Divestiture Transaction prior to October 31, 2004. If such consent is obtained after October 31, 2004, the Company will receive no compensation.

Exhibit 99.2

HEALTHCARE HORIZONS, INC. AND SUBSIDIARIES

Unaudited Consolidated Financial Statements

Six Months Ended June 30, 2004 and 2003

HEALTHCARE HORIZONS, INC.

CONSOLIDATED BALANCE SHEETS
(dollars in thousands)
June 30, 2004
(Unaudited)

Assets	
Current assets	
Cash and cash equivalents	$ 28,159
Investment securities	10,617
Premium receivables, net of allowance for doubtful accounts of $6	6,255
Provider receivables, net of allowance for doubtful accounts of $382	395
Reinsurance claims receivable	465
Other receivables	1,380
Prepaid expenses	903
Deferred tax asset	—
Other	100
Total current assets	48,274
Other assets:	
Investment securities, restricted	7,785
Property, plant & equipment, at cost, net of accumulated depreciation and amortization of $3,971	1,507
Goodwill, net	7,321
Total other assets	16,613
Total assets	$ 64,887
Liabilities and Stockholders' Equity	
Current liabilities:	
Healthcare services payable	$ 28,497
Accrued claim adjustment expense	627
Premium tax payable	978
Provider incentives payable	28
Accrued expenses	2,361
Accounts payable	144
Current installments of long-term debt	1,544
Current capitalized leases payable	149
Income taxes payable	1,318
Accrued compensation	1,904
Unearned premiums	687
Total current liabilities	38,237
Long-term debt, excluding current installments	4,275
Long-term capitalized leases payable, excluding current portion	517
Deferred tax liability	476
Total liabilities	43,505
Shareholders' equity:	
Common stock, voting $0.01 par value; authorized 5,000,000 shares, issued and outstanding 374,157 shares	4
Additional paid-in capital	4,734
Retained earnings	16,644
Total shareholders' equity	21,382
Commitments and contingencies	
Total liabilities and stockholders' equity	$ 64,887

See accompanying notes.

HEALTHCARE HORIZONS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(amounts in thousands)
Six Months Ended June 30, 2004 and 2003
(Unaudited)

	2004	2003
Operating Revenue:		
Premiums earned	$ 179,178	$ 165,965
Third party administration revenue	838	814
Commissions and other operating revenue	128	182
Total operating revenue	180,144	166,961
Operating Expenses:		
Healthcare services and claims	156,332	142,730
Salaries and benefits	8,519	8,640
General and administrative	10,216	10,152
Depreciation	287	234
Total operating expenses	175,354	161,756
Operating income	4,790	5,205
Other income (expense):		
Gain on sale of warrant to purchase common stock	1,000	—
Interest expense	(137)	(284)
Interest income	201	248
Total other income (expense)	1,064	(36)
Income before income taxes	5,854	5,169
Income tax expense	(2,827)	(1,975)
Net income	$ 3,027	$ 3,194

See accompanying notes.

HEALTHCARE HORIZONS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)
Six Months Ended June 30, 2004 and 2003
(Unaudited)

	2004	2003
Cash flows from operating activities		
Net income	$ 3,027	$ 3,194
Adjustments to reconcile net income to net cash used for operating activities:		
Depreciation and amortization	287	234
Deferred taxes	656	253
Provision of uncollectible accounts	45	20
Change in assets and liabilities:		
Premiums receivable	(215)	(1,724)
Provider receivables	731	(317)
Reinsurance receivables	271	(413)
Other receivables	(503)	(259)
Prepaid expenses and other assets	16	(663)
Healthcare services payable and accrued claim adjustment expenses	297	(13,169)
Provider incentives payable	(1,865)	(137)
Accounts payable, accrued expenses and premium taxes payable	(2,670)	(1,146)
Income taxes payable	(1,144)	247
Other liabilities	212	(695)
Total adjustments	(3,882)	(17,769)
Net cash used in operating activities	(855)	(14,575)
Cash flows from Investing activities		
(Purchase) sale of other investments	(658)	(7,049)
(Purchases) sale of restricted assets	(76)	(54)
Purchase of property, plant and equipment, net	(256)	(643)
Net cash used in investing activities	(990)	(7,746)
Cash flows from financing activities		
Repayment of long-term debt and capital lease obligations	(1,170)	(1,163)
Proceeds from issuance of common stock	—	187
Net cash used in financing activities	(1,170)	(976)
Net decrease in cash and cash equivalents	(3,015)	(23,297)
Cash and cash equivalents at beginning of period	31,174	32,720
Cash and cash equivalents at end of period	$ 28,159	$ 9,423
Supplemental cash flow information		
Cash paid for interest	$ 137	$ 284
Cash paid for taxes	$ 3,258	$ 1,475
Non cash financing activities:		
Property, plant and equipment acquired under capital leases	$ —	$ 796

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands)
June 30, 2004
(Unaudited)

1. The Reporting Entity

Healthcare Horizons, Inc. (the Company or HCH) provides services to managed healthcare organizations for the development, operation and management of healthcare delivery systems. The Company's wholly-owned subsidiaries are HCH Administration (HCHA) and Cimarron Health Plan (CHP). HCHA provides third-party administration (TPA) services for both the self-insured and fully insured markets. CHP is a licensed health maintenance organization (HMO) in New Mexico.

2. Basis of Presentation

The unaudited consolidated financial statements have been prepared under the assumption that users of the financial data have either read or have access to our audited consolidated financial statements for the latest fiscal year ended December 31, 2003. Accordingly, certain note disclosures that would substantially duplicate the disclosures contained in the December 31, 2003 audited financial statements have been omitted. These unaudited consolidated interim financial statements should be read in conjunction with our December 31, 2003 audited financial statements included elsewhere in this Report on Form 8-K/A.

The consolidated financial statements include the accounts of the Company and all majority owned subsidiaries. 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. All significant inter-company balances and transactions have been eliminated in consolidation. The consolidated results of operations presented for the interim periods are not necessarily indicative of the results for a full year.

3. Stock-Based Compensation

We account for stock-based compensation under the recognition and measurement principles (the intrinsic-value method) prescribed in Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. Compensation cost for stock options is reflected in net income and is measured as the excess of the market price of the Company's stock at the date of grant over the amount an employee must pay to acquire the stock. We have adopted the disclosure provisions required by SFAS No. 148, *Accounting for Stock-Based Compensation—Transition and Disclosure*.

The following table illustrates the effect on net income and earnings per share as if we had applied the fair value recognition provisions to stock-based employee compensation permitted by SFAS No. 148 for the six months ended June 30, 2004 and 2003:

	2004	2003
Net income, as reported	$3,027	$3,194
Reconciling items (net of related tax effects):		
Add: Stock-based employee compensation expense determined under the intrinsic-value based method for all awards	—	—
Deduct: Stock-based employee compensation expense determined under the fair-value based method for all awards	(4)	(4)
Net adjustment	(4)	(4)
Net income, as adjusted	$3,023	$3,190

Health Care Services Payable

The following table shows the components of the change in healthcare services and provider incentives payable for the six months ended June 30, 2004 and 2003:

	2004	2003
Balances at beginning of period	$ 30,054	$ 35,979
Components of medical care costs related to		
Current year	157,174	144,277
Prior years	(842)	(1,547)
Total medical care costs	156,332	142,730
Payments for medical care costs related to:		
Current year	130,071	122,664
Prior years	27,790	32,985
Total paid	157,861	155,649
Balances at end of period	$ 28,525	$ 23,060

5. Gain on Sale of Warrants to Purchase Common Stock

The gain on sale of warrants to purchase common stock for the six months ended June 30, 2004 represents $1,000 of income recorded upon the sale of certain warrants for the purchase of the common stock of an unaffiliated entity.

6. Income Tax Expense

Income tax expense for the six months ended June 30, 2004 was increased by the write off of approximately $532 in deferred tax assets resulting from an analysis of the Company's deferred tax and net operating loss carry forward positions as of June 30, 2004.

7. Commitments and Contingencies

Commitments

During 2001, we modified an agreement with the University of New Mexico Hospital (UNMH) under which we provide certain administrative services to UNMH. In connection with the modification, UNMH prepaid annual contract fees of $450,000 to us and deferred a scheduled fee increase beyond its normally expected effective date. In return, we agreed to pay a sum (the Change Payment) to UNMH in the event of certain events occurring before June 27, 2007. Those events were a change in control of the Company, a sale of all or substantially all of our assets or the assets of CHP, or a merger into another entity where the Company is not the survivor (a Corporate Transaction). The Change Payment would be equal to $1,800 in the event of a change in control; or 7% of the fair market value of consideration received by HCH or its shareholders, not less than $1,200 and not to exceed $5,000, in the event of a Corporate Transaction. No amounts have been recorded in the consolidated financial statements for this contingent liability. In July 2004, a liability arose and was settled pursuant to this agreement as a result of the closing of our merger agreement with Molina Healthcare, Inc. See Note 8.

Legal

We have been named in a lawsuit certified as a class action by a group of pharmacies claiming that the pharmacies are entitled under New Mexico law to reimbursement rates in excess of those paid by our contracted pharmacy benefit managers. The amounts claimed are significant. Though it is reasonably possible that we may eventually be found liable for some amount of the plaintiff's claims, we contend, based on consultation with legal counsel, that we are not liable for such reimbursement. We have not contracted directly with the plaintiffs, but have instead contracted with pharmacy benefit managers who in turn contract with the pharmacies. We are vigorously contesting these claims and are currently unable to estimate the amount of our future liability, if any.

We are involved in other legal actions in the ordinary course of business. These actions, when finally concluded and determined, will not, in the opinion of management, have a material adverse effect on our consolidated financial position, results of operations or cash flows.

Regulatory Capital and Dividend Restrictions

At June 30, 2004 CHP was required to maintain a net worth as defined of approximately $16,132 and was in compliance with such requirement. Currently, the New Mexico insurance statutes require that CHP maintain a defined minimum net worth. The statutes do not require compliance with the risk-based capital (RBC) standards established by the National Association of Insurance Commissioners. Such requirements, if adopted by New Mexico, may increase the minimum capital required of CHP.

Without prior approval of the New Mexico Department of Insurance, dividends from CHP to the Company are limited by the laws of the State of New Mexico to an amount that is based on restrictions relating to statutory surplus. No dividends were paid by CHP to the Company during the six months ended June 30, 2004 and 2003.

8. Subsequent Events

On February 23, 2004 the Company announced that it had entered into an agreement and plan of merger with Molina Healthcare, Inc. (MHI) of Long Beach, California in which MHI would acquire all of the outstanding common stock of the Company in a cash transaction. That transaction closed on July 1, 2004. The acquisition was effected in accordance with the Agreement and Plan of Merger dated as of February 23, 2004, by and among the Company, Molina Healthcare, Inc., a Delaware corporation, Molina NM Acquisition Corp., a Delaware corporation, and the Company’s principal shareholders. Under the terms of the merger agreement, Molina NM Acquisition Corp. merged into Health Care Horizons, with Health Care Horizons as the surviving corporation.

The consideration for the merger was $69,660, subject to adjustments. At the close of the acquisition, MHI extinguished $5,800 of Health Care Horizons bank debt. As of the effective time of the merger, each share of the Company’s common stock was converted into the right to receive in cash the merger consideration (as defined in the merger agreement), divided by the number of shares of the Company’s common stock outstanding as of the closing. All of the outstanding common stock of Molina NM Acquisition Corp. was converted into 100 shares of Health Care Horizons common stock. Effective as of August 1, 2004, CHP changed its name to Molina Healthcare of New Mexico, Inc.

Upon closing of the transaction, the contingent liability described in Note 7 became due and payable. The liability was extinguished by the payment of $4,243 by the shareholders of the Company (the Shareholders) from the proceeds received upon the sale of the Company.

On May 12, 2004 the Company and MHI announced that they had reached a definitive agreement to transfer the Company’s commercial membership to Lovelace Sandia Health System, Inc. (Lovelace) following the consummation of the purchase of the Company by MHI. Effective August 1, 2004 the Company transferred its commercial membership to Lovelace in accordance with the terms of the agreement, receiving $13,977 in cash. MHI also incurred $265 in direct transaction costs. The Company will receive additional cash proceeds for each member who transferred to Lovelace between May 3, 2004 and July 31, 2004. In connection with the transfer of Federal employees to buyer under the Federal Employee Health Benefits Program Contract, the Company could receive additional consideration up to $2,325 should the United States Office of Personnel Management (OPM) consent to the Divestiture Transaction prior to October 31, 2004. If such consent is obtained after October 31, 2004, the Company will receive no compensation.

Exhibit 99.3

UNAUDITED PRO FORMA FINANCIAL INFORMATION

The unaudited pro forma financial information, giving effect to the purchase of Health Care Horizons, Inc., and the sale of the commercial membership acquired in that purchase, prepared pursuant to Article 11 of Regulation S-X, appears below in accordance with Item 9.01 of Form 8-K.

The following Unaudited Pro Forma Condensed Consolidated Financial Statements give effect to the purchase of Health Care Horizons, Inc., or the HCH Purchase, and the sale to Lovelace Sandia Health System, Inc. (Lovelace) of the commercial membership acquired in the HCH Purchase, or the Divestiture Transaction (collectively the Transactions). The Unaudited Pro Forma Condensed Consolidated Statements of Income for the six months ended June 30, 2004 and the year ended December 31, 2003 give effect to the Transactions as if they had occurred on January 1, 2004 and 2003, respectively. The Unaudited Pro Forma Condensed Consolidated Balance Sheet presents the Company's financial position as of June 30, 2004 giving effect to the Transactions as if they had occurred on that date.

On February 23, 2004, the Company agreed to acquire, by merger with a newly formed subsidiary, the capital stock of Health Care Horizons, Inc., which is the parent company of New Mexico-based Cimarron Health Plan, for approximately $69,000,000 subject to adjustments. The acquisition was completed on July 1, 2004. The HCH Purchase 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 such consideration over the estimated fair value of such assets and liabilities 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 Health Care Horizons, Inc. The effect of any such adjustment is not expected to be significant.

On May 12, 2004 the Company agreed to transfer the commercial membership acquired in the HCH Purchase to Lovelace. Effective August 1, 2004 the transfer was completed and the Company received $13,977,000 in cash. The Company also entered into a transition services agreement with Lovelace to provide commercial claims processing, customer and provider call handling, and billing and treasury services through the date the commercial contracts are expected to be fully transitioned to Lovelace. The Unaudited Pro Forma Condensed Consolidated Financial Statements include adjustments to (i) reduce the HCH Purchase price for the sale proceeds less direct transaction costs, (ii) reduce the purchase price for the net cash inflows of the commercial operations for the one-month period ended August 31, 2004, and (iii) increase the purchase price for the net cash outflows of the transition services agreement.

The Unaudited Pro Forma Condensed Consolidated Financial Statements do not give effect to any synergies that may be realized as a result of the Transactions, nor do they give effect to any nonrecurring/unusual restructuring charges that may be incurred as a result of the integration of Health Care Horizons, Inc. 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 Health Care Horizons, Inc. had the acquisition and subsequent divestiture assumed therein occurred on the dates specified, nor are they necessarily indicative of the results of operations that may be expected in the future.

The audited financial statements of Molina Healthcare, Inc. for each of the three years in the period ended December 31, 2003, and the quarterly information for the three and six-month periods ended June 30, 2004 have been filed with the SEC in Molina Healthcare Inc.'s Annual Report on Form 10-K, filed on February 20, 2004, and quarterly report on Form 10-Q, filed on August 12, 2004, respectively. The audited financial statements of Healthcare Horizons, Inc. for the year ended December 31, 2003 and the unaudited financial statements for the six-month period ended June 30, 2004, 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 Healthcare Horizons, Inc. have been reclassified to be consistent with Molina Healthcare, Inc.'s presentation.

MOLINA HEALTHCARE, INC.

UNAUDITED CONDENSED PRO FORMA CONSOLIDATED BALANCE SHEET
June 30, 2004
(dollars in thousands)

	Molina Healthcare, Inc	Healthcare Horizons, Inc.	Pro Forma Adjustments: Purchase Accounting	(a)	Pro Forma Adjustments: Divestiture Transaction	(b)	Molina Healthcare, Inc., as Adjusted
ASSETS							
Current assets:							
Cash and cash equivalents	$ 178,339	$ 38,776	$ (71,575)	(c)	$ 13,712	(b)	$ 159,252
Investments	117,187	—	—		—		117,187
Receivables	56,489	8,495	—		—		64,984
Deferred income taxes	2,486	—	—		—		2,486
Prepaid and other current assets	5,827	1,003	—		—		6,830
Total current assets	360,328	48,274	(71,575)		13,712		350,739
Property and equipment, net	18,277	1,507	—		—		19,784
Goodwill and intangible assets, net	29,426	7,321	54,981	(d)	(8,949)	(d)	82,779
Restricted investments	2,000	7,785	—		—		9,785
Deferred income taxes	1,397	—	—		—		1,397
Advances to related parties and other assets	4,601	—	—		—		4,601
Total assets	$ 416,029	$ 64,887	$ (16,594)		$ 4,763		$ 469,085
LIABILITIES AND STOCKHOLDERS' EQUITY							
Current liabilities:							
Medical claims and benefits payable	$ 101,722	$ 29,152	—		—		$ 130,874
Deferred revenue	—	687	—		—		687
Accounts payable and accrued liabilities	13,325	5,536	—		—		18,861
Income taxes payable	2,786	1,318	—		2,480	(m)	6,584
Net liability for commercial membership sale	—	—	—		2,640	(b)	2,640
Current maturities of long-term debt	—	1,544	—		—		1,544
Total current liabilities	117,833	38,237	—		5,120		161,190
Long-term debt, less current maturities	—	4,275	—		—		4,275
Other long-term liabilities	3,417	517					3,934
Deferred income taxes	—	476	4,788	(e)	(357)	(b)	4,907
Total liabilities	121,250	43,505	4,788		4,763		174,306
Commitments and contingencies							
Stockholders' equity:							
Common stock	27	4	(4)	(d)	—		27
Preferred stock	—	—	—		—		—
Paid-in capital	154,719	4,734	(4,734)	(d)	—		154,719
Accumulated other comprehensive income	(404)	—	—		—		(404)
Retained earnings	160,827	16,644	(16,644)	(d)	—		160,827
Treasury stock	(20,390)	—	—		—		(20,390)
Total stockholders' equity	294,779	21,382	(21,382)		—		294,779
Total liabilities and stockholders' equity	$ 416,029	$ 64,887	$ (16,594)		$ 4,763		$ 469,085

See accompanying notes.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF INCOME
For the Six Months Ended June 30, 2004
(dollars in thousands)

	Molina Healthcare, Inc.	Healthcare Horizons, Inc.	Pro Forma Adjustments Purchase Accounting	(a)	Pro Forma Adjustments Divestiture Transaction	(b)	Molina Healthcare, Inc., as Adjusted
Revenue:							
Premium revenue	$ 465,323	$ 179,178	—		$ (52,967)	(i)	$ 591,534
Other operating revenue	1,986	966	—		(966)	(i)	1,986
Investment income	1,775	201	$ (376)	(f)	—		1,600
Total operating revenue	469,084	180,345	(376)		(53,933)		595,120
Expenses:							
Medical care costs	393,265	156,332	—		(45,355)	(j)	504,242
Salary, general and administrative expenses	36,300	18,735	—		(3,956)	(k)	51,079
Depreciation and amortization	3,333	287	961	(g)	—		4,581
Total expenses	432,898	175,354	961		(49,311)		559,902
Operating income	36,186	4,991	(1,337)		(4,622)		35,218
Total other income (expense), net	630	863	—		—		1,493
Income (loss) before income taxes	36,816	5,854	(1,337)		(4,622)		36,711
Provision for income taxes	13,768	2,827	(1,093)	(h)	(1,733)	(l)	13,769
Net income (loss)	$ 23,048	$ 3,027	$ (244)		$ (2,889)		$ 22,942
Basic income per share	$ 0.87						$ 0.87
Diluted income per share	$ 0.86						$ 0.86
Weighted average number of common shares outstanding	26,427,000						26,427,000
Weighted average number of common shares and potential dilutive common shares outstanding	26,829,000						26,829,000

See accompanying notes.

MOLINA HEALTHCARE, INC.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF INCOME
For the Year Ended December 31, 2003
(dollars in thousands)

	Molina Healthcare, Inc.	Healthcare Horizons, Inc.	Pro Forma Adjustments: Purchase Accounting	(a)	Pro Forma Adjustments: Divestiture Transaction	(b)	Molina Healthcare, Inc., as Adjusted
Revenue:							
Premium revenue	$ 789,536	$ 342,603	—		$ (113,856)	(i)	$ 1,018,283
Other operating revenue	2,247	1,985	—		(1,960)	(i)	2,272
Investment income	1,761	452	$ (619)	(f)	—		1,594
Total operating revenue	793,544	345,040	(619)		(115,816)		1,022,149
Expenses:							
Medical care costs	657,921	296,584	—		(96,593)	(j)	857,912
Salary, general and administrative expenses	61,543	38,810	—		(8,451)	(k)	91,902
Depreciation and amortization	6,333	638	1,922	(g)	—		8,893
Total expenses	725,797	336,032	1,922		(105,044)		958,707
Operating income	67,747	9,008	(2,541)		(10,772)		63,442
Total other expense, net	(1,334)	(549)	—		—		(1,883)
Income (loss) before income taxes	66,413	8,459	(2,541)		(10,772)		61,559
Provision for income taxes	23,896	3,099	127	(h)	(4,040)	(l)	23,082
Net income (loss)	$ 42,517	$ 5,360	$ (2,668)		$ (6,732)		$ 38,477
Basic income per share	$ 1.91						$ 1.73
Diluted income per share	$ 1.88						$ 1.70
Weighted average number of common shares outstanding	22,224,000						22,224,000
Weighted average number of common shares and potential dilutive common shares outstanding	22,629,000						22,629,000

See accompanying notes.

(dollars in thousands, except per share data)

a. **Purchase accounting.** The HCH Purchase 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 in the HCH Purchase, and reduced by the fair value of the commercial membership assets transferred in the Divestiture Transaction. The excess of such consideration paid over the estimated fair value of the assets and liabilities 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 remaining assets and liabilities of Health Care Horizons, Inc. and settlement of contingent payments to sellers and buyers under the Transaction agreements, as discussed in more detail below. The effect of any such adjustments is not expected to be significant, except for the effect of the potential additional proceeds from the Divestiture Transaction discussed below. The amount of such additional proceeds, if any, cannot be reasonably determined at this time.

Integration synergies. Molina Healthcare, Inc. believes that it will achieve synergies form the integration of the acquisition by eliminating redundant administrative costs and using its increased purchasing power to achieve lower health care and general and administrative expenses. The anticipated impact of such synergies has not been reflected in the Unaudited Pro Forma Condensed Consolidated Statements of Income. The Unaudited Pro Forma Condensed Consolidated Financial Statements do not include any nonrecurring /unusual restructuring charges that may be incurred as a result of the integration of Healthcare Horizons, Inc. The amount of such charges cannot be reasonably determined at this time.

b. **Divestiture Transaction.** On May 12, 2004 the Company announced that it had reached a definitive agreement to transfer its New Mexico commercial membership to Lovelace following the consummation of the HCH Purchase. Effective August 1, 2004 the Company transferred its commercial membership to Lovelace in accordance with the terms of the agreement, receiving $13,977 in cash. The Company also incurred $265 in direct transaction costs. The Company will receive additional cash proceeds for each member who transferred to Lovelace between May 3, 2004 and July 31, 2004. In connection with the transfer of Federal employees to buyer under the Federal Employee Health Benefits Program Contract, the Company could receive additional consideration up to $2,325 should the United States Office of Personnel Management (OPM) consent to the Divestiture Transaction prior to October 31, 2004. If such consent is obtained after October 31, 2004, the Company will receive no compensation. Any additional consideration received will be reported as a further reduction in goodwill.

The Company also entered into a transition services agreement with Lovelace to provide commercial claims processing, customer and provider call handling, and billing and treasury services until the commercial contracts are fully transitioned to Lovelace. The Unaudited Pro Forma Financial Information include adjustments to (i) reduce the HCH Purchase price for the sale proceeds less direct transaction costs, or $13,712, (ii) reduce the purchase price for the net cash inflows of the commercial operations for the one-month period ended August 31, 2004, or $260, and (iii) increase the purchase price for the net cash outflows of the transition services agreement, or $2,900. Lovelace did not acquire either the tangible assets or the tangible liabilities of the commercial programs. Such assets, consisting primarily of premium receivables of $4,812, and liabilities, consisting primarily of medical claims and benefits payable of $9,895 at June 30, 2004, are not included in the Divestiture Transaction adjustments included in the Unaudited Pro Forma Condensed Consolidated Balance Sheet.

c. **Purchase consideration.** Purchase price consideration of $69,000 was paid on July 1, 2004. The purchase price consideration will be adjusted no later than October 15, 2004 based upon a final determination of the net assets acquired, as defined in the agreement. Such adjustment may increase or decrease the purchase price consideration in an amount not to exceed $1,000. Any contingent consideration, when finally determined, will be reported as an adjustment to goodwill. The HCH Purchase also required (i) $1,440 in change of control payments to certain members of HCH management based upon executive employment agreements in effect at the HCH Purchase date and (ii) $475 of direct transaction costs. Additionally, the Company paid the sellers an additional $660 representing the after-tax proceeds realized by HCH upon the sale of certain warrants to purchase the common stock of an unaffiliated entity. The disposition of these warrants, the proceeds of which were to be retained by the sellers, occurred prior to the closing of the HCH purchase. The change in control payments, the direct transaction costs and the payment for the proceeds from the sale of the warrants are collectively referred to as "Other Purchase Related Costs". Subsequent to the effectiveness of the HCH Purchase, the Company paid approximately $5,800 to a bank to retire in advance the Healthcare Horizons, Inc. long-term debt. The Unaudited Pro Forma Condensed Consolidated Financial Statements do not give effect to the early retirement of the long-term debt.

d. **Goodwill and intangible assets.** The following is an analysis of goodwill and intangible assets recognized in connection with the Transactions:

Purchase price consideration	$ 69,000
Other purchase related costs	2,575
Total purchase consideration	71,575
Less net assets acquired	(21,382)
Less net consideration received for transfer of commercial membership	(13,712)
Add net liability assumed in transition services agreement and one-month of commercial operations, net of tax at 37.5%	1,650
Add back tax liability arising from sale of commercial membership	3,470
Add back goodwill included in net assets acquired	7,321
Acquisition cost in excess of net assets acquired	$ 48,922

Allocation of acquisition cost in excess of net assets acquired (including effect of the Divestiture Transaction):

Allocation to identifiable intangible assets		
Medicaid contract		$11,900
Medicaid medical provider network		868
Trade name		2,400
Allocation to other than identifiable intangible assets		
Goodwill before deferred tax adjustment	$33,754	
Less Healthcare Horizons, Inc. goodwill	(7,321)	
	26,433	
Pro forma increase in deferred tax liability due to step up in identifiable intangible assets	4,788	
Pro forma decrease in deferred tax liability due to Divestiture Transaction	(357)	
Pro forma increase in goodwill		30,864
Pro forma adjustment to goodwill and intangible assets (including effect of Divestiture Transaction that reduced acquired goodwill by $8,949)		$46,032

e. **Deferred income taxes.** Pro forma adjustment to increase deferred tax liabilities to reflect the step up in amortizable intangible assets resulting from the allocation of $12,768 of the purchase consideration to the HCH Medicaid contract. For purposes of calculating the pro forma adjustments an effective tax rate of 37.5% was used.

f. **Investment income.** Pro forma adjustment to reflect a reduction to investment income assuming a payment of the purchase consideration on January 1, 2004 and 2003, offset by the receipt of the net proceeds for the sale of commercial membership contract rights. The net decrease in cash and investments of $57,813 reduced invested balances and the related investment income. Interest income is assumed to be earned at an average rate of 1.3% and 1.07% for the six months ended June 30, 2004 and for the year ended December 31, 2003, respectively.

g. **Amortization of intangibles.** Pro forma adjustment reflects the amortization of a Medicaid service contract with the state of New Mexico valued at approximately $11,900 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 96 months. Pro forma adjustment also reflects the amortization of the Medicaid medical provider network in the state of New Mexico valued at approximately $868 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 24 months. No amortization is recorded on the trade name as it is an indefinite lived asset and will be subject to an annual impairment test.

h. **Provision for income taxes.** Pro forma adjustments reflect the tax effect of the acquisition at statutory rates in effect during six months ended June 30, 2004 and the fiscal year ended December 31, 2003. For purposes of calculating the pro forma adjustments a consolidated as adjusted effective tax rate of 37.5% was used for both periods.

i. **Commercial premium and other operating revenue.** Pro forma adjustments eliminate premium and other operating revenue directly attributed to the commercial line of business.

j. **Commercial medical care costs.** Pro forma adjustments eliminate medical care costs directly attributed to the commercial line of business.

k. **Commercial salary, general and administrative expenses.** Pro forma adjustments eliminate salary, general and administrative expenses directly attributed to the commercial line of business. Such expense includes premium taxes, broker commissions, assessments and salary costs of employees working exclusively in support of the commercial line of business.

l. **Commercial provision for income taxes.** Pro forma adjustments reflect the application of the statutory rates in effect to the commercial pre-tax income.

m. **Income taxes payable.** Pro forma adjustment to record the $990 estimated tax benefit of the net cash outflows from commercial operation for the one-month period ended August 1, 2004 and the transition services agreement, offset by the $3,470 estimated tax liability for the gain on the sale of the commercial membership.