

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

**FORM 8-K**

Current Report

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

Date of Report (Date of earliest event reported): November 5, 2003

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

Delaware  
(State of incorporation)

1-31719  
(Commission  
File Number)

13-4204626  
(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

Item 7. Financial Statements and Exhibits.

(c) Exhibits.

<u>Exhibit No.</u>	<u>Description</u>
99.1	Press release of Molina Healthcare, Inc. issued November 5, 2003 as to financial results for the quarter ended September 30, 2003.

Item 12. Disclosure of Results of Operations and Financial Condition.

On November 5, 2003, we issued a press release announcing our financial results for the quarter ended September 30, 2003. The full text of the press release is included as Exhibit 99.1 to this report. The information contained in the websites cited in the press release is not part of this report.

On November 6, 2003, we held a conference call to report on our financial results for the quarter ended September 30, 2003. On the call we also provided the guidance set forth below for the fourth quarter of 2003 and calendar year 2004.

We expect to achieve net income in the range of \$10.3 million to \$11.2 million for the fourth quarter of 2003, with an earnings per share range of \$0.40 to \$0.44 per diluted share. We expect that for the full year, net income will be in the range of \$40.9 million to \$41.9 million, with an earnings per share range of \$1.81 to \$1.85 per diluted share.

For 2004, we expect enrollment growth between 6 to 9 percent, excluding acquisitions, resulting in revenue growth of 11 to 14 percent. This results in revenue within the range of \$887 million to \$906 million. We anticipate our medical care ratio will be within the range of 83.0 to 83.5 percent and our administrative costs to be between 8.0 and 8.3 percent of revenue. Our expectation for net income is to be within the range of \$46.3 million to \$49.5 million, utilizing an effective tax rate of 37.5 percent. Our anticipated 2004 net income represents a 10 to 18 percent increase over our anticipated net income for 2003. We anticipate an earnings per share range of \$1.75 to \$1.90 per share and have utilized 26 million shares outstanding for this calculation.

The information in this Form 8-K and the exhibit attached hereto shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except as expressly set forth by specific reference in such a filing.

**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: November 6, 2003

By: /s/ J. Mario Molina, M.D.

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J. Mario Molina M.D.  
Chairman of the Board, Chief  
Executive Officer and President



# News Release

**Contact:**

J. Mario Molina, M.D.  
 President and Chief Executive Officer  
 562-435-3666

## MOLINA HEALTHCARE REPORTS POSITIVE RESULTS

**Third Quarter Highlights:**

- Year to date premium and other operating revenue up \$116.3 million over prior period;
- Quarterly premium and other operating revenue up \$24.1 million over prior year quarter;
- Year to date net income up \$5.1 million over prior period;
- Quarterly net income down \$400,000 from prior year quarter;
- Year over year membership increases to 530,000 at September 30, 2003, from 478,000 at September 30, 2002.

Long Beach, California (November 5, 2003) — Molina Healthcare, Inc. (NYSE: MOH), a multi-state managed care organization providing quality care and accessible services to low-income families and individuals, today announced results for the third quarter and nine months ended September 30, 2003.

Commenting on the Company's third quarter results, J. Mario Molina, M.D., president and chief executive officer of Molina Healthcare, stated, "Our strong third quarter results reinforce our view that delivering high quality services to Medicaid populations in our markets is a compelling strategy with measurable benefit not only to these deserving individuals, but also to our company and our shareholders. We are confident and excited about our prospects for the future."

**Financial Results – Comparison of Quarters Ended September 30, 2003 and 2002**

Net income attributable to common stockholders for the quarter ended September 30, 2003, totaled \$11.7 million, or \$0.46 per diluted share, versus net income of \$12.1 million, or \$0.59 per diluted share, in the prior-year period. The number of diluted shares used in determining earnings per share increased by approximately 5.0 million diluted shares between the third quarter of 2002 and the third quarter of 2003 as a result of the Company's initial public offering of common stock, offset in part by share repurchases.

Premium revenues were \$196.7 million, up 14.2% from \$172.1 million a year ago. One-time retroactive premium payments related to increased reimbursement for certain outpatient costs contributed \$4.4 million to premium and other operating revenue for the third quarter of 2002. Membership growth contributed \$19.9 million to the increase in revenue. Year over year enrollment increased 10.9% to 530,000 members at September 30, 2003, from 478,000 members at the same date of the prior year. This membership growth was concentrated in Molina's Washington, Utah and Michigan HMOs. Effective August 1, 2003, the Company's Michigan HMO added approximately 9,400 members as a result of the transfer of members from another managed care organization. The remainder of the additional revenue, or \$4.7 million, was attributable to increases in premium rates and proportionally greater increases in membership in those states with higher premium rates. At September 30, 2003, 48.3% of the Company's membership (generating 35.3% of the third quarter's premium revenue) was in California, where premiums on a per member per month basis are substantially less than in Washington, Michigan and Utah. At September 30, 2002, California membership comprised 52.7 % of Molina's total enrollment while generating 42.5% of third quarter 2002 premium revenue.

Medical care costs were \$161.7 million, representing 82.1% of premium and other operating revenue for the quarter ending September 30, 2003, as compared with \$139.8 million, representing 80.8% of premium and other operating revenue, for the quarter ended September 30, 2002. During the third quarter of 2002, medical expense included \$2.5 million in connection with the \$4.4 million of one-time retroactive premium payments noted above. During the

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November 5, 2003

third quarter of 2003, a reduction to amounts previously accrued in connection with this matter reduced medical care costs by approximately \$750,000. The increase in the medical care ratio was primarily due to an increase in hospital expenses incurred by the Company's California HMO and a change in the state of Washington's methodology, which was effective January 1, 2003, for compensating Molina for certain healthcare costs reimbursed by the Supplemental Security Income program.

Marketing, general and administrative expenses were \$16.6 million for the quarter ended September 30, 2003, representing 8.4% of operating revenue, as compared with \$13.2 million, or 7.6% of operating revenue, for the quarter ended September 30, 2002. MG&A expense increased due to an increase in premium taxes of \$2.7 million, an increase in the number of employees and an increase in stock option compensation expense of approximately \$700,000, offset by lower bonus expense of approximately \$800,000. MG&A expense in 2002 was reduced by \$1.3 million in cash received as a result of the settlement of certain litigation in the third quarter of that year.

#### **Financial Results – Comparison of Nine Months Ended September 30, 2003 and 2002**

Net income attributable to common stockholders was \$30.7 million, or \$1.45 per diluted share for the nine months ended September 30, 2003, versus net income of \$25.6 million, or \$1.28 per diluted share, for the nine months ended September 30, 2002, representing an increase of 19.7% in net income and an increase of 14.5% in earnings per diluted share.

Premium revenues for the nine months ended September 30, 2003, were \$581.5 million, up 24.9 % from \$465.7 million for the nine months ended September 30, 2002. Membership growth contributed \$81.8 million to the increase in revenue. The remainder of the additional revenue, or \$34.0 million, was attributable to increases in premium rates and proportionally greater increases in membership in those states with higher premium rates.

Medical care costs for the nine months ended September 30, 2003, increased 25.5%, or \$98.5 million, to \$485.1 million from \$386.6 million for the same period of 2002. The increase was attributable to growth in membership and to comparatively higher inpatient and specialty costs. The medical care ratio for the nine months ended September 30, 2003 increased to 83.1% from 82.7% for the nine months ended September 30, 2002. The increase in the medical care ratio was primarily due to the previously noted increase in hospital expenses incurred by the Company's California HMO and the change in the state of Washington's Supplemental Security Income program.

MG&A expenses for the nine months ended September 30, 2003, increased 23.5%, or \$8.9 million, to \$46.7 million from \$37.8 million for the nine months ended September 30, 2002. The increase was primarily due to an increase in the number of employees, an increase in premium taxes and the aforementioned increase in stock option compensation expense, offset in part by lower bonus expense. Premium taxes increased to \$6.5 million during the nine months ended September 30, 2003 from \$3.7 million during the nine months ended September 30, 2002. MG&A expenses as a percentage of operating revenue were 8.0% for the nine months ended September 30, 2003, as compared with 8.1% for the nine months ended September 30, 2002.

#### **Income Tax Expense**

Various strategies pursued by the Company during 2003 to reduce its federal, state, and local taxes have reduced the Company's tax provision by \$1.2 million, or \$0.05 per diluted share, and \$1.5 million, or \$0.07 per diluted share, respectively, for the quarter and the nine months ended September 30, 2003. Approximately \$1.0 million, or \$0.04 per diluted share and \$0.05 per diluted share, for the quarter and nine months, respectively, ended September 30, 2003, of the reduction in tax expense related to prior periods. MG&A expense for the quarter and for the nine months ended September 30, 2003, includes approximately \$300,000 of tax consulting expense incurred in connection with this effort.

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November 5, 2003

**Cash Flow**

Cash flows from operating activities for the nine months ended September 30, 2003 were \$17.3 million, compared with \$34.5 million for the nine months ended September 30, 2002. Cash flow from operations was adversely affected by an increase in accounts receivable from the state of Utah of approximately \$24.9 million. Effective July 1, 2002, the Company entered into an agreement with the state of Utah calling for reimbursement of medical costs incurred in serving the Company's members plus 9% of medical costs as an administrative fee. The Company bills the state of Utah monthly for actual paid healthcare claims plus the 9% administrative fee. Molina's receivable balance from the state also includes amounts estimated for incurred but not reported claims, which, along with the related administrative fees, are not billable to the state until such claims are actually paid. This portion of the receivable balance will continue to build until such time as the Company's Utah health plan is no longer adding membership and incurred claims are no longer outpacing the receipt of those claims.

At September 30, 2003, the Company had cash of \$161.2 million and short-term investments of \$62.3 million.

**Membership**

The following table outlines membership in the Company's managed care organizations by state at September 30, 2003 and 2002:

	<u>2003</u>	<u>2002</u>
California	256,000	252,000
Michigan	47,000	29,000
Washington	181,000	157,000
Utah	46,000	40,000
<b>Total</b>	<b><u>530,000</u></b>	<b><u>478,000</u></b>

**Earnings Guidance**

The Company currently anticipates that net income for the fourth quarter of 2003 will be between \$0.40 and \$0.44 per diluted share. Management will provide earnings guidance for calendar year 2004 during the November 6, 2003, conference call.

**Conference Call**

The live broadcast of Molina Healthcare's conference call will begin at 10:00 a.m. Eastern Time on November 6, 2003. A 30-day online replay will be available beginning approximately two hours following the conclusion of the live broadcast. A link to these events can be found on the Company's website at [www.molinahealthcare.com](http://www.molinahealthcare.com) or at [www.fulldisclosure.com](http://www.fulldisclosure.com).

Molina Healthcare, Inc., is a rapidly growing, multi-state managed care organization that arranges for the delivery of healthcare services to persons eligible for Medicaid and other programs for low-income families and individuals. The Company currently operates health plans in California, Washington, Michigan and Utah. As of September 30, 2003, the Company had approximately 530,000 members.

*The Company, from time to time, may discuss forward-looking information. Except for the historical information contained in this release, all forward-looking statements are predictions by the Company's management and are subject to various risks and uncertainties that may cause results to differ from management's current expectations. Such factors include the Company's third-party contracts, the Company's ability to accurately predict and effectively manage health benefits and other operating expenses, competition, changes in healthcare practices, changes in federal or state laws or regulations or the interpretation thereof, reduction in provider payments by governmental payors, disasters, numerous other factors affecting the delivery and cost of healthcare and other risks as detailed from time-to-time in the Company's registration statement and reports and filings with the Securities and Exchange Commission. All forward-looking statements, if any, in this release represent the Company's judgment as of the date of this release. The Company disclaims, however, any intent or obligation to update forward-looking statements.*

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**MOLINA HEALTHCARE, INC.**  
**UNAUDITED CONSOLIDATED INCOME STATEMENTS**  
(Dollars in thousands, except for per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
<b>Revenue:</b>				
Premium revenue	\$ 196,653	\$ 172,127	\$ 581,549	\$ 465,716
Other operating revenue	400	863	1,932	1,484
Investment income	473	273	1,135	1,330
<b>Total operating revenue</b>	<b>197,526</b>	<b>173,263</b>	<b>584,616</b>	<b>468,530</b>
<b>Expenses:</b>				
Medical care costs:				
Medical services	54,022	46,487	161,325	130,492
Hospital and specialty services	91,624	79,664	274,365	214,895
Pharmacy	16,090	13,619	49,371	41,185
<b>Total medical care costs</b>	<b>161,736</b>	<b>139,770</b>	<b>485,061</b>	<b>386,572</b>
Marketing, general and administrative expenses	16,599	13,214	46,730	37,844
Depreciation and amortization	1,598	1,278	4,289	2,669
<b>Total expenses</b>	<b>179,933</b>	<b>154,262</b>	<b>536,080</b>	<b>427,085</b>
<b>Operating income</b>	<b>17,593</b>	<b>19,001</b>	<b>48,536</b>	<b>41,445</b>
<b>Other income (expense):</b>				
Interest expense	(398)	121	(1,150)	(213)
Other, net	32	(21)	106	(56)
<b>Total other expense</b>	<b>(366)</b>	<b>100</b>	<b>(1,044)</b>	<b>(269)</b>
<b>Income before income taxes</b>	<b>17,227</b>	<b>19,101</b>	<b>47,492</b>	<b>41,176</b>
Provision for income taxes	5,503	6,968	16,841	15,576
<b>Net income</b>	<b>\$ 11,724</b>	<b>\$ 12,133</b>	<b>\$ 30,651</b>	<b>\$ 25,600</b>
<b>Net income per share:</b>				
Basic	\$ 0.46	\$ 0.61	\$ 1.45	\$ 1.28
Diluted	\$ 0.46	\$ 0.59	\$ 1.42	\$ 1.24
<b>Weighted average number of common shares and potential dilutive common shares outstanding</b>	<b>25,739,964</b>	<b>20,738,215</b>	<b>21,592,453</b>	<b>20,720,000</b>
<b>Operating Statistics:</b>				
Medical care ratio <sup>(1)</sup>	82.1%	80.8%	83.1%	82.7%
Marketing, general and administrative expense ratio <sup>(2)</sup>	8.4%	7.6%	8.0%	8.1%
Members <sup>(3)</sup>	530,000	478,000		
Days in claims payable	57	64		

(1) Medical care ratio represents medical care costs as a percentage of premium and other operating revenue.

(2) Marketing, general and administrative expense ratio represents such expenses as a percentage of total operating revenue.

(3) Number of members at end of period.

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**MOLINA HEALTHCARE, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(Dollars in thousands)

	<b>Sept. 30, 2003</b>	<b>Dec. 31, 2002</b>
	<u>(Unaudited)</u>	<u></u>
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 161,205	\$ 139,300
Investments	62,297	—
Receivables	50,085	29,591
Income taxes receivable	127	904
Deferred income taxes	1,787	2,083
Prepaid and other current assets	14,304	5,682
	<u>289,805</u>	<u>177,560</u>
Total current assets	289,805	177,560
Property and equipment, net	17,193	13,660
Goodwill and intangible assets, net	5,657	6,051
Restricted investments	2,000	2,000
Deferred income taxes	1,951	2,287
Advances to related parties and other assets	4,343	3,408
	<u>320,949</u>	<u>204,966</u>
Total assets	\$ 320,949	\$ 204,966
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Medical claims and benefits payable	\$ 97,362	\$ 90,811
Accounts payable and accrued liabilities	13,405	12,074
Current maturities of long-term debt	—	55
	<u>110,767</u>	<u>102,940</u>
Total current liabilities	110,767	102,940
Long-term debt, less current maturities	—	3,295
Other long-term liabilities	2,180	3,464
	<u>2,180</u>	<u>3,464</u>
Total liabilities	112,947	109,699
Commitments and contingencies	—	—
<b>Stockholders' equity:</b>		
Common stock, \$0.001 par value; 80,000,000 shares authorized; issued and outstanding: 20,000,000 shares at December 31, 2002, and 25,268,255 shares at September 30, 2003	25	5
Preferred stock, \$0.001 par value; 20,000,000 shares authorized, no shares issued and outstanding	—	—
Additional paid-in capital	102,410	—
Accumulated other comprehensive income	44	—
Retained earnings	125,913	95,262
Treasury stock (1,201,174 shares, at cost)	(20,390)	—
	<u>208,002</u>	<u>95,267</u>
Total stockholders' equity	208,002	95,267
Total liabilities and stockholders' equity	\$ 320,949	\$ 204,966

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**MOLINA HEALTHCARE, INC.**  
**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Dollars in thousands)

	<b>Nine Months Ended September 30</b>	
	<b>2003</b>	<b>2002</b>
<b>Operating activities</b>		
Net income	\$ 30,651	\$ 25,600
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,289	2,669
Amortization of capitalized credit facility fees	367	—
Deferred income taxes	605	(1,786)
Stock-based compensation	1,236	553
Loss on disposal of property and equipment	—	36
Changes in operating assets and liabilities:		
Receivables	(20,494)	(10,918)
Prepaid and other current assets	(7,993)	(1,907)
Medical claims and benefits payable	6,551	21,397
Accounts payable and accrued liabilities	1,331	(328)
Income taxes payable (receivable)	777	(856)
Net cash provided by operating activities	17,320	34,460
<b>Investing activities</b>		
Purchase of equipment	(6,082)	(2,550)
Purchases of investments	(81,226)	—
Dispositions and maturities of investments	19,000	—
Other long-term liabilities	(105)	44
Net cash paid in purchase transactions	(1,346)	(3,250)
Advances to related parties and other assets	(44)	(815)
Net cash used in investing activities	(69,803)	(6,571)
<b>Financing activities</b>		
Issuance of common stock	119,625	—
Payment of credit facility fees	(1,887)	—
Repayment of mortgage note	(3,350)	—
Principal payments on notes payable	—	(38)
Purchase and retirement of common stock	(19,610)	—
Purchase of treasury stock	(20,390)	—
Net cash provided by (used for) financing activities	74,388	(38)
Net increase in cash and cash equivalents	21,905	27,851
Cash and cash equivalents at beginning of period	139,300	102,750
Cash and cash equivalents at end of period	\$ 161,205	\$ 130,601
<b>Supplemental cash flow information</b>		
Cash paid during the period for:		
Income taxes	\$ 15,480	\$ 18,218
Interest	\$ 530	\$ 208
<b>Schedule of non-cash investing and financing activities:</b>		
Reclassification of accrued stock compensation expense to additional paid-in capital	\$ 2,415	\$ —
Unrealized gain on investments	\$ 71	\$ —
Deferred taxes	(27)	—
Increase in stockholders' equity	\$ 44	\$ —
Fair value of assets acquired	\$ 1,346	\$ 3,250



**MOLINA HEALTHCARE, INC.**  
**UNAUDITED SUPPLEMENTAL INFORMATION**  
**(Dollars in thousands)**

The following table shows the components of the change in medical claims and benefits payable for the six-month periods ending September 30, 2003 and 2002:

	2003	2002
Balances at beginning of period	\$ 90,811	\$ 64,100
Components of medical care costs related to:		
Current year	495,507	393,812
Prior years	(10,446)	(7,240)
<b>Total medical care costs</b>	<b>485,061</b>	<b>386,572</b>
Payments for medical care costs related to:		
Current year	409,293	318,168
Prior years	69,217	47,993
<b>Total paid</b>	<b>478,510</b>	<b>366,161</b>
<b>Balances at end of period</b>	<b>\$ 97,362</b>	<b>\$ 84,511</b>