

MOLINA HEALTHCARE INC
Form PRE 14A
March 15, 2013
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of

the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material under §240.14a-12

**Confidential, for Use of the Commission
Only (as permitted by Rule 14a-6(e)(2))**

MOLINA HEALTHCARE, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Edgar Filing: MOLINA HEALTHCARE INC - Form PRE 14A

.. Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

- (1) Title of each class of securities to which transaction applies:
- (2) Aggregate number of securities to which transaction applies:
- (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
- (4) Proposed maximum aggregate value of transaction:
- (5) Total fee paid:

.. Fee paid previously with preliminary materials.

.. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

- (1) Amount Previously Paid:
- (2) Form, Schedule or Registration Statement No.:
- (3) Filing Party:
- (4) Date Filed:

Table of Contents

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To Be Held Wednesday, May 1, 2013

Dear Fellow Stockholder:

Our 2013 annual meeting of stockholders will be held at 10:00 a.m. local time on Wednesday, May 1, 2013, at 300 Oceangate, Suite 950, Long Beach, California, 90802, for the following purposes:

1. To elect three Class II directors to hold office until the 2016 annual meeting, one Class I director to hold office until the 2015 annual meeting, and one Class III director to hold office until the 2014 annual meeting.
2. To approve an amendment to our Certificate of Incorporation to increase the number of authorized shares of common stock from 80,000,000 to 150,000,000.
3. To approve, as required by NYSE Listed Company Rule 312.03(c), the issuance of up to 26,980,472 shares of our common stock upon the potential exercise and settlement, or termination, as the case may be, of the warrants issued concurrently with the sale of our 1.125% Cash Convertible Senior Notes due 2020.
4. To ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for 2013.
5. To transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

The foregoing items of business are more fully described in the proxy statement accompanying this notice. The board of directors has fixed the close of business on March 12, 2013 as the record date for the determination of stockholders entitled to notice of and to vote at the annual meeting and at any continuation, adjournment, or postponement thereof.

This notice and the accompanying proxy statement are being mailed or transmitted on or about March 28, 2013 to the Company's stockholders of record as of March 12, 2013.

Every stockholder vote is important. Please sign, date, and promptly return the enclosed proxy card in the enclosed envelope, or vote by telephone or Internet (instructions are on your proxy card), so that your shares will be represented whether or not you attend the annual meeting.

By order of the board of directors,

Edgar Filing: MOLINA HEALTHCARE INC - Form PRE 14A

Joseph M. Molina, M.D.

Chairman of the Board, Chief Executive Officer,

and President

Long Beach, California

March 28, 2013

Table of Contents**TABLE OF CONTENTS**

<u>About the Annual Meeting</u>	1
<u>Annual Report</u>	5
<u>Corporate Governance</u>	5
<u>Corporate Governance and Nominating Committee</u>	5
<u>Board Diversity</u>	6
<u>Corporate Governance Guidelines</u>	6
<u>Director Independence</u>	7
<u>Related Party Transactions</u>	8
<u>Compensation Committee Interlocks</u>	10
<u>Code of Business Conduct and Ethics</u>	10
<u>Compliance Hotline</u>	10
<u>Communications with the Board</u>	10
<u>Proposal 1 – Election of Directors</u>	11
<u>Class II Director Nominees</u>	12
<u>Class I Director Nominee</u>	13
<u>Class III Director Nominee</u>	14
<u>Directors Whose Terms Are Not Expiring</u>	15
<u>Meetings of the Board of Directors and Committees</u>	17
<u>Meetings of Non-Management Directors</u>	17
<u>Board Leadership Structure</u>	17
<u>Board’s Role in Risk Oversight</u>	17
<u>Committees of the Board of Directors</u>	18
<u>Involvement in Certain Legal Proceedings</u>	18
<u>Non-Employee Director Compensation</u>	19
<u>Stock Ownership Guidelines for Directors</u>	21
<u>Executive Officers</u>	21
<u>Audit Matters</u>	22
<u>Audit Committee Report</u>	22
<u>Executive Compensation</u>	23
<u>The Compensation Committee Report</u>	23
<u>Compensation Discussion and Analysis</u>	23
<u>Summary Compensation Table</u>	30
<u>Grants of Plan-Based Awards</u>	31
<u>Outstanding Equity Awards at Fiscal Year End</u>	32
<u>Option Exercises and Stock Vested</u>	32
<u>Nonqualified Deferred Compensation</u>	33
<u>Stock Ownership Guidelines for Executive Officers</u>	33
<u>Restrictions on Pledges of Shares by Directors and Executive Officers</u>	34
<u>Clawback Policy</u>	34
<u>Potential Payments Upon Termination and Change In Control</u>	35
<u>Management Analysis of Material Adverse Effects of Compensation Plans</u>	39
<u>Information About Stock Ownership</u>	40
<u>Proposal 2 – Amendment to Our Certificate of Incorporation to Increase the Number of Authorized Shares of Common Stock From 80,000,000 to 150,000,000</u>	42
<u>Proposal 3 – Approval of the Issuance of Up to 26,980,472 Shares of Our Common Stock Upon the Potential Exercise and Settlement, or Termination, as the Case May Be, of the Warrants Issued Concurrently with the Sale of the Notes</u>	43
<u>Disclosure of Auditor Fees</u>	45
<u>Proposal 4 – Ratification of the Appointment of Independent Registered Public Accounting Firm</u>	46
<u>Submission of Future Stockholder Proposals</u>	46
<u>Cost of Annual Meeting and Proxy Solicitation</u>	46
<u>Section 16(a) Beneficial Ownership Reporting Compliance</u>	46
<u>Householding</u>	47
<u>Other Matters</u>	47
<u>Appendix A – Certificate of Amendment to the Certificate of Incorporation of Molina Healthcare, Inc.</u>	A-1

Table of Contents

ANNUAL MEETING OF STOCKHOLDERS

To Be Held Wednesday, May 1, 2013

About the Annual Meeting

Who is soliciting my vote?

The board of directors of Molina Healthcare, Inc. (sometimes referred to herein as the Company or Molina Healthcare) is soliciting your vote at the 2013 annual meeting of Molina Healthcare's stockholders.

What will I be voting on?

Stockholders will be voting on the following matters:

1. The election of three Class II directors to hold office until the 2016 annual meeting, one Class I director to hold office until the 2015 annual meeting, and one Class III director to hold office until the 2014 annual meeting;
2. The proposed amendment to our Certificate of Incorporation to increase the number of authorized shares of common stock from 80,000,000 to 150,000,000;
3. The approval, as required by NYSE Listed Company Rule 312.03(c), of the issuance of up to 26,980,472 shares of our common stock upon the potential exercise and settlement, or termination, as the case may be, of the warrants issued concurrently with the sale of our 1.125% Cash Convertible Senior Notes due 2020;
4. The ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for 2013; and
5. In accordance with the best judgment of the individuals named as proxies on the proxy card, on any other matters properly brought before the meeting or any adjournment or postponement thereof.

Why are we seeking stockholders' approval for Proposal 3?

We are seeking stockholders' approval for Proposal 3 because, as described below, we have a contractual commitment to do so. As more fully described under the discussion of Proposal 3, on February 14, 2013, we issued \$550,000,000 aggregate principal amount of our 1.125% Cash Convertible Senior Notes due 2020 (the Notes). The Notes are not convertible into our common stock. Rather, holders may convert their notes solely into cash. In connection with the pricing of the Notes, we entered into cash convertible note hedge transactions and warrant transactions.

Edgar Filing: MOLINA HEALTHCARE INC - Form PRE 14A

Pursuant to the warrant transactions, we issued and sold warrants (the Warrants) to purchase shares of our common stock.

Our common stock is listed on The New York Stock Exchange (NYSE), and we are subject to rules and regulations set forth in the NYSE Listed Company Manual. NYSE Listed Company Rule 312.03(c) (the NYSE Stockholder Approval Rule) requires stockholder approval prior to the issuance of securities in connection with a transaction (other than a public offering for cash or a bona fide private financing) involving the sale, issuance or potential issuance by us of common stock (or securities convertible into or exercisable for common stock) equal to 20% or more of the common stock or 20% or more of the voting power outstanding before the issuance.

Upon issuance, the Warrants would have been exercisable into 13,490,236 shares of our common stock at an exercise price of \$53.8475 per share but for a share delivery cap initially set at 9,350,864 shares of our common stock (the Share Cap), which is 19.99% of the total number of shares outstanding on the day on which we

Table of Contents

issued the Warrants. The Share Cap was included to avoid a violation of the NYSE Stockholder Approval Rule. However, under the agreements pursuant to which the Warrants were issued and sold, we agreed to use our reasonable best efforts to seek approval from our stockholders, as required by the NYSE Shareholder Approval Rule, for the issuance of up to 26,980,472 shares of our common stock (*i.e.*, two times the initial issuance number, but for the Share Cap) upon the exercise and settlement, or termination, as the case may be, of the Warrants.

The number of shares underlying the Warrants and the effective exercise price of the Warrants are subject to customary anti-dilution adjustments. In addition, the number of shares underlying the Warrants and the effective exercise price of the Warrants are subject to potential further adjustment, the most significant of which would only take effect if such underlying shares are no longer freely tradeable in the public market. This would occur if shares of our common stock issued upon exercise and settlement, or termination, as the case may be, of the Warrants, were delivered in a private placement and were subject to any applicable restrictions with respect to any registration or qualification requirement or prospectus delivery requirement for such shares of our common stock pursuant to any applicable federal or state securities laws.

But for the limitation set forth in the NYSE Stockholder Approval Rule, taking potential adjustments into consideration (including adjustments in the event the underlying shares become restricted securities), we would be required to issue and deliver upon exercise and settlement, or termination, as the case may be, up to 26,980,472 shares of our common stock in a transaction that was neither a public offering for cash nor a bona fide private financing. Because this number exceeds 20% of our total shares of common stock outstanding on the date we issued the Warrants, we are seeking the approval of our stock holders for the issuance of a number of shares of our common stock in excess of 20% of our total shares of common stock outstanding on the date we issued the Warrants as required by the NYSE Stockholder Approval Rule.

What will be the consequences to us if stockholder approval of Proposal 3 is not obtained?

If we do not obtain stockholder approval of Proposal 3 on or prior to February 11, 2014, the Warrants will be subject to termination by each of the bank counterparties thereto at its option, and in connection with any such termination, we would be required to pay cash to the relevant bank counterparty (or deliver shares of our common stock with an equal value) in an amount equal to the then-current fair value of the terminated Warrants. Furthermore, if at any time prior to our obtaining stockholder approval of Proposal 3 (or any subsequent, identical proposal submitted to our stockholders), the notional number of shares of our common stock that would be deliverable at such time upon a fair value termination of the Warrants were to exceed 60% of the maximum number of shares that are deliverable upon exercise and settlement or termination of the Warrants (which maximum is equal to 19.9% of total shares of our common stock outstanding as of the date the Warrants were issued, allocated pro rata between the bank counterparties), the Warrants will be subject to termination by each of the bank counterparties thereto at its option, and in connection with any such termination, we would be required to pay cash to the relevant bank counterparty, or delivery shares of our common stock with an equal value, in an amount equal to the then-current fair value of the terminated Warrants. Any fair value termination of Warrants described in the two immediately preceding sentences could, in some circumstances, lead to a termination of the related cash convertible note hedge entered into between us and each of the bank counterparties to the Warrants, which would leave us unhedged with respect to our cash payment obligations on our outstanding 1.125% Cash Convertible Senior Notes due 2020, which obligations could be substantially in excess of the principal amount of such notes.

In addition, if we do not obtain stockholder approval of Proposal 3 on or prior to February 11, 2014, on February 11, 2014, and, unless we subsequently obtain stockholder approval of any identical proposal submitted to our stockholders, on each one year anniversary of such date, the term of the Warrants will be extended by one year (and the Warrants will become, as of February 11, 2014, exercisable by the bank counterparties thereto at any time).

How many votes do I have?

You will have one vote for every share of Molina Healthcare common stock you owned on March 12, 2013, which was the record date.

Table of Contents

How many votes can be cast by all stockholders?

45,362,697, consisting of one vote for each share of Molina Healthcare's common stock that was outstanding on the record date. There is no cumulative voting.

How many votes must be present to hold the meeting?

A majority of the votes that can be cast, or 22,681,349 votes. We urge you to vote by proxy even if you plan to attend the annual meeting so that we will know as soon as possible whether enough votes will be present for us to hold the meeting.

How do I vote?

You can vote either *in person* at the annual meeting or *by proxy* whether or not you attend the annual meeting.

To vote by proxy, you must:

fill out the enclosed *proxy card*, date and sign it, and return it in the enclosed postage-paid envelope,

vote by *telephone* (instructions are on the proxy card), or

vote by *Internet* (instructions are on the proxy card).

To ensure that your vote is counted, please remember to submit your vote by April 30, 2013, the day before the annual meeting.

If you want to vote in person at the annual meeting and you hold your Molina Healthcare stock through a securities broker (that is, in street name), you must obtain a proxy from your broker and bring that proxy to the meeting.

Can I change my vote or revoke my proxy?

Yes. Just send in a new proxy card with a later date, or cast a new vote by telephone or Internet, or send a written notice of revocation to Molina Healthcare's Corporate Secretary at 200 Oceangate, Suite 100, Long Beach, California 90802. If you attend the annual meeting and want to vote in person, you can request that your previously submitted proxy not be used.

What if I do not vote for the four proposals listed on my proxy card?

If you return a signed proxy card without indicating your vote, in accordance with the board's recommendation, your shares will be voted as follows:

1. *For* the five director nominees listed on the card;
2. *For* the approval of the amendment to our Certificate of Incorporation to increase the number of authorized shares of common stock from 80,000,000 to 150,000,000;
3. *For* the approval of the issuance of up to 26,980,472 shares of our common stock upon the potential exercise and settlement, or termination, as the case may be, of the Warrants; and

Edgar Filing: MOLINA HEALTHCARE INC - Form PRE 14A

4. *For* the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for 2013.

Can my broker vote my shares for me on each of the proposals?

Proposals 1 and 3 are not considered routine matters under NYSE rules, and brokers will not be permitted to vote on Proposals 1 and 3 if the beneficial owners fail to provide voting instructions. **Please vote your proxy so your vote can be counted.**

Table of Contents

Proposals 2 and 4 are considered a routine matters under the NYSE rules on which brokers will be permitted to vote in their discretion even if the beneficial owners do not provide voting instructions.

Can my shares be voted if I do not return my proxy card and do not attend the annual meeting?

If you do not vote your shares held in street name, your broker can vote your shares on matters that the NYSE has ruled discretionary. As noted above, Proposals 1 and 3 are not discretionary items. However, Proposal 2 (to amend our Certificate of Incorporation to increase the number of authorized shares of common stock from 80,000,000 to 150,000,000) and Proposal 4 (to ratify the appointment of Ernst & Young LLP) are discretionary items, and thus NYSE member brokers that do not receive instructions from beneficial owners may vote such shares at their discretion for these proposals.

If you do not vote the shares registered directly in your name, not in the name of a bank or broker, your shares will not be voted.

How many votes are needed for each proposal and how are the votes counted?

In the election of directors (*Item 1 on the proxy card*) the five nominees receiving the greatest number of votes cast *for* shall be elected as directors. Abstentions and broker non-votes will have no effect on the voting outcome with respect to the election of directors.

The approval of an amendment to our Certificate of Incorporation to increase the number of authorized shares of common stock from 80,000,000 to 150,000,000 (*Item 2 on the proxy card*) requires the affirmative *for* vote of a majority of the shares outstanding and entitled to vote at the annual meeting. Accordingly, abstentions and broker non-votes will have the effect of a vote *against* Proposal 2.

The favorable vote of a majority of the shares present in person or by proxy and entitled to vote will be required for:

- (i) the approval of the issuance of up to 26,980,472 shares of our common stock upon the exercise of the Warrants (*Item 3 on the proxy card*);
- (ii) the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for 2013 (*Item 4 on the proxy card*); and
- (iii) any other proposal that might properly come before the meeting.

Abstentions will be counted toward the tabulation of votes cast on Proposals 3, and 4, and will have the effect of negative votes. Broker non-votes will have the effect of negative votes.

Could other matters be decided at the annual meeting?

We do not know of any other matters that will be considered at the annual meeting. If any other matters arise at the annual meeting, the proxies will be voted at the discretion of the proxy holders.

What happens if the meeting is postponed or adjourned?

Your proxy will still be good and may be voted at the postponed or adjourned meeting. You will still be able to change or revoke your proxy until it is voted.

Do I need proof of stock ownership to attend the annual meeting?

Yes, you will need proof of ownership of Molina Healthcare stock to enter the meeting.

When you arrive at the annual meeting, you may be asked to present photo identification, such as a driver's license. If you are a stockholder of record, you will be on the list of Molina Healthcare's registered stockholders. If your shares are held in the name of a bank, broker, or other

Edgar Filing: MOLINA HEALTHCARE INC - Form PRE 14A

holder of record, a recent brokerage statement or letter from a bank or broker is an example of proof of ownership. In accordance with our discretion, we may admit you only if we are able to verify that you are a Molina Healthcare stockholder.

Table of Contents

How can I access Molina Healthcare's proxy materials and 2012 Annual Report electronically?

This proxy statement and the 2012 Annual Report are available on Molina Healthcare's website at www.molinahealthcare.com. From the Molina home page, click on "About Molina," then click on "Investors," and then click on "2013 Annual Meeting Materials."

Most stockholders can elect not to receive paper copies of future proxy statements and annual reports and can instead view those documents on the Internet. If you are a stockholder of record, you can choose this option and save Molina Healthcare the cost of producing and mailing these documents by following the instructions provided when you vote over the Internet. If you hold your Molina Healthcare stock through a bank, broker, or other holder of record, please refer to the information provided by that entity for instructions on how to elect not to receive paper copies of future proxy statements and annual reports. If you choose not to receive paper copies of future proxy statements and annual reports, you will receive an e-mail message next year containing the Internet address to use to access Molina Healthcare's proxy statement and annual report. Your choice will remain in effect until you tell us otherwise.

Where can I find the voting results?

We intend to announce preliminary voting results at the annual meeting. We will publish the final results in a current report on Form 8-K, which we expect to file within four business days after the annual meeting is held. You can obtain a copy of the Form 8-K by logging on to our website at www.molinahealthcare.com, or through the EDGAR system of the Securities and Exchange Commission, or SEC, at www.sec.gov. Information on our website does not constitute part of this proxy statement.

Annual Report

If you received these materials by mail, you should have also received with them Molina Healthcare's Annual Report to Stockholders for 2012. The 2012 Annual Report is also available on Molina Healthcare's website at www.molinahealthcare.com as described above. We urge you to read these documents carefully. In accordance with the rules of the SEC, the Company's performance graph appears on page 32 of our 2012 Annual Report.

Corporate Governance

Molina Healthcare continually strives to maintain high standards of ethical conduct, to report its results with accuracy and transparency, and to maintain full compliance with the laws, rules, and regulations that govern Molina Healthcare's business.

The current charters of the audit committee, the corporate governance and nominating committee, the compensation committee, and the compliance committee, as well as Molina Healthcare's corporate governance guidelines, code of business conduct and ethics, and Related Person Transaction Policy are available in the "Investors" section of Molina Healthcare's website, www.molinahealthcare.com, under the link for "Corporate Governance." Molina Healthcare stockholders may obtain printed copies of these documents free of charge by writing to Molina Healthcare, Inc., Juan Jose Orellana, Vice President of Investor Relations, 200 Oceangate, Suite 100, Long Beach, California 90802.

Corporate Governance and Nominating Committee

The corporate governance and nominating committee's mandate is to review and shape corporate governance policies and identify qualified individuals for nomination to the board of directors. All of the members of the committee meet the independence standards contained in the NYSE corporate governance rules and Molina Healthcare's Corporate Governance Guidelines.

Molina Healthcare has designated the chair of the board's corporate governance and nominating committee—Ronna E. Romney—as its lead director. The lead director presides at executive sessions of the independent directors, serves as a liaison between the chairman and the independent directors, approves information sent to the board, approves meeting agendas for the board, and approves meeting schedules to ensure that there is sufficient time for discussion of all agenda items.

Table of Contents

The committee considers all qualified candidates identified by members of the committee, by other members of the board of directors, by senior management, and by stockholders. Stockholders who would like to propose a director candidate for consideration by the committee may do so by submitting the candidate's name, résumé, and biographical information to the attention of the Corporate Secretary as described below under Submission of Future Stockholder Proposals. All proposals for nominations received by the Corporate Secretary will be presented to the committee for its consideration.

The committee reviews each candidate's biographical information and assesses each candidate's independence, skills, and expertise based on a variety of factors, including breadth of experience reflecting that the candidate will be able to make a meaningful contribution to the board's discussion of and decision-making regarding the array of complex issues facing the Company; understanding of the Company's business environment; the possession of expertise that would complement the attributes of our existing directors; whether the candidate will appropriately balance the legitimate interests and concerns of all stockholders and other stakeholders in reaching decisions rather than advancing the interests of a particular constituency; and whether the candidate will be able to devote sufficient time and energy to the performance of his or her duties as a director. Application of these factors involves the exercise of judgment by the committee and the board.

Based on its assessment of each candidate's independence, skills, and qualifications, the committee will make recommendations regarding potential director candidates to the board.

The committee follows the same process and uses the same criteria for evaluating candidates proposed by stockholders, members of the board of directors, and members of senior management.

Effective March 11, 2013, the board of directors, acting pursuant to the company's bylaws, expanded the size of the board from nine to eleven and elected Daniel Cooperman as a Class I director to fill the vacancy in Class I resulting from the increase in the size of the board, elected Steve James as a Class II director to fill an existing vacancy in Class II, and elected Dale Wolf as a Class III director to fill the vacancy in Class III resulting from the increase in the size of the board. For the 2013 annual meeting, the Company did not receive notice of any director nominations from its stockholders.

Board Diversity

Diversity is among the factors that the corporate governance and nominating committee considers when evaluating the composition of the board. Among the criteria for board membership as stated in the Company's Corporate Governance Guidelines is a diversified membership: The Board shall be committed to a diversified membership, in terms of the various experiences and areas of expertise of the individuals involved. As set forth in our corporate governance guidelines, diversity may reflect age, gender, ethnicity, industry focus and tenure on the board so as to enhance the board's ability to manage and direct the affairs and business of the Company, including, when applicable, to enhance the ability of the committees of the board to fulfill their duties and/or to satisfy any independence requirements imposed by law, regulation, NYSE listing standards and the Company's Bylaws and other corporate governance documents.

Each director candidate contributes to the board's overall diversity by providing a variety of perspectives, personal, and professional experiences and backgrounds. The board is satisfied that the current nominees reflect an appropriate diversity of gender, age, race, geographical background, and experience, and is committed to continuing to consider diversity issues in evaluating the composition of the board.

Corporate Governance Guidelines

The Company's Corporate Governance Guidelines embody many of our practices, policies, and procedures, which are the foundation of our commitment to sound corporate governance practices. The Guidelines are reviewed annually and revised as necessary. The Guidelines outline the responsibilities, operations, qualifications, and composition of the board. The Guidelines provide that a majority of the members of the board shall be independent.

The Guidelines require that all members of the Company's audit, corporate governance and nominating, and compensation committees be independent. Committee members are appointed by the board upon recommendation of the corporate governance and nominating committee. Committee membership and chairs are

Table of Contents

rotated from time to time in accordance with the board's judgment. The board and each committee have the power to hire and fire independent legal, financial, or other advisors, as they may deem necessary.

Meetings of the non-management directors are held as part of every regularly scheduled board meeting and are presided over by the lead independent director.

Directors are expected to prepare for, attend, and participate in all board meetings, meetings of the committees on which they serve, and the annual meeting of stockholders. All of the directors then in office attended Molina Healthcare's 2012 annual meeting.

The corporate governance and nominating committee conducts an annual review of board performance, and an annual review of individual director performance. In addition, each committee conducts its own self-evaluation. The results of these evaluations are reported to the board.

Directors have full and free access to senior management and other employees of Molina Healthcare. New directors are provided with an orientation program to familiarize them with Molina Healthcare's business, and its legal, compliance, and regulatory profile. Molina Healthcare makes available to the board educational seminars on a variety of topics. These seminars are intended to allow directors to develop a deeper understanding of relevant health care, governmental, and business issues facing the Company.

The board reviews the compensation committee's report on the performance of Dr. Molina, the Company's current chief executive officer, and of John Molina, the Company's current chief financial officer, in order to ensure that they are providing effective leadership for Molina Healthcare. The board also works with the compensation committee to identify potential successors to the chief executive officer, the chief financial officer, and other senior executive officers of the Company.

Director Independence

The board of directors has determined that, except for Dr. J. Mario Molina and Mr. John Molina, each of the directors of the Company, including the five nominees identified in this proxy statement, has no material relationship with the Company that would interfere with the exercise of his or her independent judgment as a director, and is otherwise independent in accordance with the applicable listing requirements of the NYSE. In making that determination, the board of directors considered all relevant facts and circumstances, including the director's commercial, consulting, legal, accounting, charitable, and familial relationships. The board of directors applied the following standards, which provide that a director will not be considered independent if he or she:

Is, or has been within the last three years, an officer or employee of the Company or its subsidiaries, or has an immediate family member who is or has been within the last three years an officer or employee of the Company or its subsidiaries.

Has received, or who has an immediate family member who has received, during any 12 month period within the last three years, direct compensation from the Company in excess of \$120,000 (other than director or committee fees or pension or other forms of deferred compensation for prior service, provided such compensation is not contingent in any way on continued service).

Is or has been an executive officer of another company or is or has been an immediate family member of an executive officer of another company where any of the Company's executive officers at the same time served on that company's compensation committee during any of the last three years.

(a) Is a current partner or employee of a firm that is the Company's internal or external auditor; (b) has an immediate family member who is a current partner of such a firm; (c) has an immediate family member who is a current employee of such a firm and personally works on the Company's audit; or (d) was, or has an immediate family member who was, within the last three years, a partner or employee of such a firm and personally worked on the Company's audit within the last three years.

Edgar Filing: MOLINA HEALTHCARE INC - Form PRE 14A

Is a current employee, or is an immediate family member of a current executive officer, of a company that has made payments to, or received payments from, the Company for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of \$1 million or 2% of such other company's consolidated gross revenues.

Table of Contents

In addition, a director will not be considered independent if Section 303A.02(b) of the NYSE Listed Company Manual (or any applicable successor listing standard) otherwise disqualifies such director from being considered independent. The independence of directors and the materiality of any business relationships delineated above shall be determined by the Board, and its determination shall be final.

Related Party Transactions

The board has adopted a policy regarding the review, approval, and monitoring of transactions involving the Company and related persons (directors and executive officers or their immediate family members). Such related persons are required to promptly and fully disclose to the Company's general counsel all financial, social, ethical, personal, legal, or other potential conflicts of interest involving the Company. The general counsel shall confer as necessary with the lead independent director and/or with the Company's corporate governance and nominating committee regarding the facts of the matter and the appropriate resolution of any conflict of interest situation in the best interests of the Company, including potential removal of the related person from a position of decision-making or operational authority with respect to the conflict situation, or other more significant steps depending upon the nature of the conflict.

6th & Pine Lease

On February 27, 2013, the Company entered into a build-to-suit office building lease (the Lease) with 6th & Pine Development, LLC (the Landlord) for approximately 190,000 rentable square feet of office space and 15,000 square feet of storage space located at 604 Pine Avenue, Long Beach, California (the Project). The principal members of the Landlord are John Molina, the chief financial officer and a director of the Company, and his wife. In addition, in connection with the construction of the Project, John Molina has pledged 650,000 shares of common stock in the Company he holds as trustee of the Molina Siblings Trust. Each of John Molina, and Dr. J. Mario Molina, the Company's chief executive officer and chairman of the board of directors, are one-fifth beneficiaries of the Molina Siblings Trust.

The Landlord is expected to construct the Project on a turnkey basis, which will consist of two office buildings, on-site parking, common areas and certain amenities, and the right to use up to 500 off-site parking spaces to be secured by the Landlord. The two office buildings will be comprised of:

an existing building located on the site and commonly known as the Independent Press Telegram building (the Existing Building), which the Landlord is required to substantially refurbish as part of Phase I of the Project. Upon completion of the refurbishment, the Existing Building is expected to contain approximately 70,000 square feet of office space and 15,000 square feet of storage space, and

a new building (the New Building), which the Landlord is required to construct as part of Phase II of the Project following the demolition of a building currently located on the site commonly known as the Meeker-Baker building. Upon completion of the construction, the New Building is expected to contain approximately 120,000 square feet of office space.

The term of the Lease with respect to the Existing Building is expected to commence on June 1, 2013, and the term of the Lease with respect to the New Building is expected to commence on November 1, 2014. The initial term of the Lease with respect to both buildings expires on December 31, 2024, subject to two options to extend the term for a period of five years each.

Commencing on the commencement date of the lease for the Existing Building, the monthly base rent due under the Lease is (i) for the office space, initially \$2.70 per rentable square foot, increasing by 3.75% per year through the initial term, and (ii) for the storage space, initially \$1.40 per rentable square foot, increasing by 3.75% per year through the initial term. The total rental payments by the Company under the Lease during fiscal year 2013 are expected to be approximately \$1,507,000. Base rent during the extension terms will be the greater of then-current base rent or fair market rent. The Lease is a full service, base year, gross lease. Accordingly, the rent payable by the Company includes the cost of all utilities, taxes, insurance and maintenance with respect to the Project for the base year, 2015. The Company will be responsible for any increases in the cost of utilities, taxes, insurance and/or maintenance in excess of the cost therefor during the base year, 2015 (subject to certain

Table of Contents

customary limitations). The Company will also pay \$600 per year for each on-site parking space (213) and for each off-site parking space that the Company elects to use (up to 500). The per year, per space parking rate will increase by 3% each year for each on-site parking space and by CPI, with a cap of 3%, for each off-site space.

During the first five years of the term of the Lease, the Company has a right of first offer to purchase the Project (including any transferable off-site parking rights held by the Landlord), and from and after year five of the Lease, the Company has an option to purchase the Project (including any transferable off-site parking rights held by the Landlord) for a purchase price equal to the fair market value for the Project.

In November 2011, the Company's board of directors organized a special committee of five independent directors (the Special Committee) consisting of Steve Orlando, Ronna Romney, John Szabo, Charles Fedak, and Dr. Frank Murray, and delegated to the Special Committee full power and authority to consider and enter into any real property transaction to meet the Company's space needs. Following its formation, the Special Committee undertook a review of, among other things, the Company's projected space needs and available space options. In connection with its work, the Special Committee retained Latham & Watkins LLP, as its independent legal counsel, and Duff & Phelps LLC, as its independent real estate advisor. During 2012, the Special Committee met thirteen times. Following the completion of its work, the Committee determined that it was appropriate to enter into the Lease with the Landlord under its terms and conditions, and accordingly approved the Company's entry into the Lease.

Joseph M. Molina, M.D., Professional Corporations

Our wholly owned subsidiary, American Family Care, Inc., or AFC, provides non-clinical administrative services to the Molina primary care clinics. In 2012, AFC entered into services agreements with the Joseph M. Molina, M.D. Professional Corporations, or JMMPC. JMMPC was created to further advance our direct delivery line of business. Its sole shareholder is Joseph M. Molina, M.D. (Dr. J. Mario Molina), our chairman of the board, president and chief executive officer. Dr. Molina is paid no salary and receives no dividends in connection with his work for, or ownership of, JMMPC. Under the services agreements, AFC provides the clinic facilities, clinic administrative support staff, patient scheduling services and medical supplies to JMMPC, and JMMPC provides routine outpatient professional medical services. While JMMPC may provide some services to the general public, substantially all of the individuals served by JMMPC are members of our health plans. JMMPC does not have agreements to provide professional medical services with any other entities. In addition to the services agreements with AFC, JMMPC has entered into affiliation agreements with us. Under these agreements, we have agreed to fund JMMPC's operating deficits, or receive JMMPC's operating surpluses, based on a monthly reconciliation such that JMMPC will operate at break even and derive no profit.

We have determined that JMMPC is a variable interest entity, or VIE, and that we are its primary beneficiary. We have reached this conclusion under the power and benefits criterion model according to U.S. generally accepted accounting principles. Specifically, we have the power to direct the activities that most significantly affect JMMPC's economic performance, and the obligation to absorb losses or right to receive benefits that are potentially significant to the VIE, under the services and affiliation agreements described above. Because we are its primary beneficiary, we have consolidated JMMPC. JMMPC's assets may be used to settle only JMMPC's obligations, and JMMPC's creditors have no recourse to the general credit of the Company. As of December 31, 2012, JMMPC had total assets of \$1.4 million, comprising primarily cash and equivalents, and total liabilities of \$1.1 million, comprising primarily accrued payroll and employee benefits.

Our maximum exposure to loss as a result of our involvement with this entity is equal to the amounts needed to fund JMMPC's ongoing payroll and employee benefits. We believe that such loss exposure will be immaterial to our consolidated operating results and cash flows for the foreseeable future. For the year ended December 31, 2012, we provided an initial cash infusion of \$0.3 million to JMMPC in the first quarter of 2012 to fund its start-up operations. During 2012 our health plans received \$0.2 million from JMMPC under the terms of the affiliation agreement.

Stock Repurchase

On December 26, 2012, the Company purchased 110,988 shares of its common stock from certain Molina family trusts for an aggregate purchase price of \$3.0 million. This purchase transaction was approved by our

Table of Contents

board of directors. The shares were purchased at a price of \$27.03, representing the closing price per share of the Company's common stock on December 26, 2012. The shares were purchased from the Janet M. Watt Separate Property Trust dated 10/22/2007, or the Separate Property Trust, and the Watt Family Trust dated 10/11/1996, or the Family Trust. Janet M. Watt is the sister, and her husband Lawrence B. Watt is the brother-in-law, of Dr. J. Mario Molina and John Molina. Ms. Watt is the sole trustee of the Separate Property Trust, and a co-trustee with Lawrence B. Watt of the Family Trust.

Equity Investment in Medical Service Provider

The Company has an equity investment in a medical service provider that provides certain vision services to the Company's members. The Company accounts for this investment under the equity method of accounting because the Company has an ownership interest in the investee that confers significant influence over operating and financial policies of the investee. For both years ended December 31, 2012, and 2011, the Company's carrying amount for this investment amounted to \$3.9 million. For the years ended December 31, 2012, 2011, and 2010, the Company paid \$28.4 million, \$24.3 million, and \$22.0 million, respectively, for medical service fees to this provider.

Compensation Committee Interlocks

The persons listed on page 19 were the members of the compensation committee during 2012. No member of the compensation committee was a part of a compensation committee interlock during fiscal year 2012 as described under SEC rules. In addition, none of our executive officers served as a director or member of the compensation committee of another entity that would constitute a compensation committee interlock. No member of the compensation committee had any material interest in a transaction with Molina Healthcare. Except for Dr. J. Mario Molina and Mr. John C. Molina, no director is a current or former employee of Molina Healthcare or any of its subsidiaries.

Code of Business Conduct and Ethics

The board has adopted a Code of Business Conduct and Ethics governing all employees of Molina Healthcare and its subsidiaries. A copy of the Code of Business Conduct and Ethics is available on our website at www.molinahealthcare.com. From the Molina home page, click on "About Molina," then click on "Investors," and then click on "Corporate Governance." There were no waivers of our Code of Business Conduct and Ethics during 2012. We intend to disclose amendments to, or waivers of, our Code of Business Conduct and Ethics, if any, on our website.

Compliance Hotline

The Company encourages employees to raise possible ethical issues. The Company offers several channels by which employees and others may report ethical concerns or incidents, including, without limitation, concerns about accounting, internal controls, or auditing matters. We provide a Compliance Hotline that is available 24 hours a day, seven days a week. Individuals may choose to remain anonymous. We prohibit retaliatory action against any individual for raising legitimate concerns or questions regarding ethical matters, or for reporting suspected violations.

Communications with the Board

Stockholders or other interested parties who wish to communicate with a member or members of the board of directors, including the lead independent director or the non-management directors as a group, may do so by addressing their correspondence to the individual board member or board members, c/o Corporate Secretary, Molina Healthcare, Inc., 200 Oceangate, Suite 100, Long Beach, California 90802. The board of directors has approved a process pursuant to which the Corporate Secretary shall review and forward correspondence to the appropriate director or group of directors for response.

Table of Contents

PROPOSAL 1 ELECTION OF DIRECTORS

Our eleven-member board of directors is divided into three classes – Class I, Class II, and Class III – with each class I and III having four board seats and Class II having three board seats. The terms of the Class II directors expire at the 2013 annual meeting, while the terms of the Class III directors expire at the 2014 annual meeting, and the terms of the Class I directors expire at the 2015 annual meeting.

Effective March 11, 2013, the board of directors, acting pursuant to the Company’s bylaws, expanded the size of the board from nine to eleven, elected Steven James as a Class II director to fill an existing vacancy in Class II, elected Daniel Cooperman as a Class I director to fill the vacancy in Class I resulting from the increase in the size of the board, and elected Dale Wolf as a Class III director to fill the vacancy in Class III resulting from the increase in the size of the board. For the 2013 annual meeting, the Company did not receive notice of any director nominations from its stockholders.

Although, as stated above, the terms of the Class III directors expire at the 2014 annual meeting and the terms of the Class I directors expire at the 2015 annual meeting, our bylaws provide that a director appointed when a new directorship is created (*i.e.*, as a result of the March 2013 expansion of the size of the board) shall serve until the next election of directors. Accordingly, the terms of Messrs. Cooperman and Wolf, even though they are a Class I and Class III director, respectively, will terminate at the 2013 annual meeting unless they are re-elected as directors at that meeting.

The three current Class II directors are Charles Z. Fedak, Steven James, and John C. Molina. The directors to be elected as Class II directors at the 2013 annual meeting will serve until the 2016 annual meeting. If Mr. Wolf is elected as a Class III director, he will serve until the 2014 annual meeting, and if Mr. Cooperman is elected as a Class I director, he will serve until the 2015 annual meeting. All directors serve until the expiration of their respective terms and until their respective successors are elected and qualified or until such director’s earlier resignation, removal from office, death, or incapacity. Each nominee receiving more votes for his election than votes against his election will be elected.

The board of directors, upon recommendation of the corporate governance and nominating committee, has nominated the following persons for election at the 2013 annual meeting:

the three incumbent Class II directors – Charles Z. Fedak, Steven James, and John C. Molina for election as Class II directors;

Daniel Cooperman for election as a Class I director; and

Dale Wolf for election as a Class III director.

Proxies can only be voted for the five named nominees.

In the event any nominee is unable or declines to serve as a director at the time of the meeting, the proxies will be voted for any nominee who may be designated by the board of directors to fill the vacancy. As of the date of this proxy statement, the board of directors is not aware of any nominee who is unable or will decline to serve as a director.

Table of Contents

CLASS II DIRECTOR NOMINEES

Name and Age at Record Date	Position, Principal Occupation, and Business Experience
Charles Z. Fedak, 61	Founder, Charles Z. Fedak & Co., CPAs Served as Molina Healthcare director since 2002 (Class II director) Chairman of audit committee