

MOLINA HEALTHCARE INC
Form 10-Q
November 09, 2006
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2006

Or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number: 001-31719

Molina Healthcare, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

(562) 435-3666

(Registrant's telephone number, including area code)

13-4204626
(I.R.S. Employer
Identification No.)

90802
(Zip Code)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares of the issuer's Common Stock, par value \$0.001 per share, outstanding as of November 7, 2006, was 28,070,646.

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(amounts in thousands, except share data)

	September 30, 2006 (unaudited)	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 337,084	\$ 249,203
Investments	91,659	103,437
Receivables	84,540	70,532
Income tax receivable	6,037	3,014
Deferred income taxes	2,073	2,339
Prepaid expenses and other current assets	8,564	10,321
Total current assets	529,957	438,846
Property and equipment, net	37,158	31,794
Goodwill and intangible assets, net	146,953	124,914
Restricted investments	19,980	18,242
Receivable for ceded life and annuity contracts	34,987	38,113
Other assets	8,539	8,018
Total assets	\$ 777,574	\$ 659,927
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Medical claims and benefits payable	\$ 256,927	\$ 217,354
Deferred revenue	12,472	803
Accounts payable and accrued liabilities	40,297	31,457
Total current liabilities	309,696	249,614
Long-term debt	15,000	
Deferred income taxes	6,705	4,796
Liability for ceded life and annuity contracts	34,987	38,113
Other long-term liabilities	4,596	4,554
Total liabilities	370,984	297,077
Stockholders equity:		
Common stock, \$0.001 par value; 80,000,000 shares authorized; issued and outstanding: 28,070,646 shares at September 30, 2006 and 27,792,360 shares at December 31, 2005	28	28
Preferred stock, \$0.001 par value; 20,000,000 shares authorized, no shares issued and outstanding		
Additional paid-in capital	172,112	162,693
Accumulated other comprehensive loss	(391)	(629)
Retained earnings	255,231	221,148
Treasury stock (1,201,174 shares, at cost)	(20,390)	(20,390)

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Total stockholders' equity	406,590	362,850
Total liabilities and stockholders' equity	\$ 777,574	\$ 659,927

See accompanying notes.

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(amounts in thousands, except per share data)

(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
Revenue:				
Premium revenue	\$ 512,080	\$ 425,943	\$ 1,441,197	\$ 1,220,045
Investment income	5,385	2,668	14,278	6,792
Total revenue	517,465	428,611	1,455,475	1,226,837
Expenses:				
Medical care costs:				
Medical services	95,961	70,677	256,839	201,948
Hospital and specialty services	284,728	255,120	815,287	740,668
Pharmacy	50,181	40,815	143,706	126,600
Total medical care costs	430,870	366,612	1,215,832	1,069,216
Salary, general and administrative expenses	60,504	47,005	168,025	117,611
Loss contract charge				939
Depreciation and amortization	5,633	4,113	15,265	10,869
Total expenses	497,007	417,730	1,399,122	1,198,635
Operating income	20,458	10,881	56,353	28,202
Other expense:				
Interest expense	(645)	(581)	(1,636)	(1,288)
Other, net				(400)
Total other expense	(645)	(581)	(1,636)	(1,688)
Income before income taxes	19,813	10,300	54,717	26,514
Income tax expense	7,472	3,489	20,634	9,650
Net income	\$ 12,341	\$ 6,811	\$ 34,083	\$ 16,864
Net income per share:				
Basic	\$ 0.44	\$ 0.25	\$ 1.22	\$ 0.61
Diluted	\$ 0.44	\$ 0.24	\$ 1.21	\$ 0.60
Weighted average shares outstanding:				
Basic	28,022	27,751	27,942	27,692
Diluted	28,346	28,067	28,253	28,010

See accompanying notes.

Table of Contents**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(dollars in thousands)

(unaudited)

	Nine months ended September 30,	
	2006	2005
Operating activities		
Net income	\$ 34,083	\$ 16,864
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	15,265	10,869
Amortization of capitalized credit facility fees	646	519
Deferred income taxes	(2,510)	(645)
Stock-based compensation	4,331	875
Changes in operating assets and liabilities:		
Receivables	(13,099)	1,885
Prepaid expenses and other current assets	2,068	(1,361)
Medical claims and benefits payable	17,036	39,104
Accounts payable and accrued liabilities	7,411	6,385
Income taxes	1,955	(13,499)
Net cash provided by operating activities	67,186	60,996
Investing activities		
Purchases of equipment	(13,285)	(9,808)
Purchases of investments	(103,702)	(55,273)
Sales and maturities of investments	115,866	33,720
Increase in restricted cash	(738)	(539)
Net cash acquired (paid) in purchase transactions	5,820	(32,288)
Increase in other long-term liabilities	42	496
Increase in other assets	(1,218)	(4,843)
Net cash provided by (used in) investing activities	2,785	(68,535)
Financing activities		
Tax benefit from exercise of employee stock options recorded as additional paid-in capital	1,094	1,674
Proceeds from exercise of stock options and employee stock purchases	1,816	1,414
Borrowings under credit facility	20,000	3,100
Principal payments on credit facility, capital lease obligation and mortgage note	(5,000)	(3,227)
Net cash provided by financing activities	17,910	2,961
Net increase (decrease) in cash and cash equivalents	87,881	(4,578)
Cash and cash equivalents at beginning of period	249,203	228,071
Cash and cash equivalents at end of period	\$ 337,084	\$ 223,493
Supplemental cash flow information		
Cash paid during the period for:		
Income taxes	\$ 19,969	\$ 22,122
Interest	\$ 1,589	\$ 679
Schedule of non-cash investing and financing activities:		

Change in unrealized gain on investments

\$ 386 \$ (588)