

MOLINA HEALTHCARE INC

Form DEF 14A

March 23, 2009

**Table of Contents**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
SCHEDULE 14A  
(RULE 14a-101)  
INFORMATION REQUIRED IN PROXY STATEMENT  
SCHEDULE 14A INFORMATION  
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 Pursuant to §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.

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 Tuesday, April 28, 2009**

Dear Fellow Stockholder:

Our 2009 annual meeting of stockholders will be held at 10:00 a.m. local time on Tuesday, April 28, 2009, in the Huntington Conference Room at the Molina Healthcare building located at One Golden Shore Drive, Long Beach, California, 90802, for the following purposes:

1. To elect two Class I directors to hold office until the 2012 annual meeting.
2. 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 9, 2009 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 24, 2009 to the Company's stockholders of record as of March 9, 2009.

**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,

Joseph M. Molina, M.D.  
*Chairman of the Board, Chief Executive Officer,  
and President*

Long Beach, California  
March 24, 2009

---

**TABLE OF CONTENTS**

<u>About the Annual Meeting</u>	1
<u>Annual Report</u>	3
<u>Corporate Governance</u>	3
<u>Corporate Governance and Nominating Committee</u>	3
<u>Corporate Governance Guidelines</u>	4
<u>Director Independence</u>	5
<u>Related Party Transactions</u>	5
<u>Compensation Committee Interlocks</u>	6
<u>Code of Business Conduct and Ethics</u>	6
<u>Compliance Hotline</u>	6
<u>Communications with the Board</u>	6
<u>Proposal No. 1 Election of Two Class I Directors</u>	7
<u>Director Nominees</u>	7
<u>Directors Whose Terms Are Not Expiring</u>	8
<u>Meetings of the Board of Directors and Committees</u>	9
<u>Meetings of Non-Management Directors</u>	9
<u>Committees of the Board of Directors</u>	9
<u>Non-Employee Director Compensation</u>	11
<u>Executive Officers</u>	12
<u>Audit Committee Report</u>	13
<u>Information About Executive Compensation</u>	14
<u>The Compensation Committee Report</u>	14
<u>Compensation Discussion and Analysis</u>	14
<u>Summary Compensation Table</u>	21
<u>Grants of Plan-Based Awards</u>	21
<u>Non-qualified Deferred Compensation</u>	23
<u>Potential Payments Upon Termination And Change In Control</u>	23
<u>Disclosure of Auditor Fees</u>	27
<u>Information About Stock Ownership</u>	28
<u>Submission of Future Stockholder Proposals</u>	30
<u>Cost of Annual Meeting and Proxy Solicitation</u>	30
<u>Householding</u>	31
<u>Other Matters</u>	31

---

**Table of Contents**

**ANNUAL MEETING OF STOCKHOLDERS  
To Be Held Tuesday, April 28, 2009**

**About the Annual Meeting**

**Who is soliciting my vote?**

The board of directors of Molina Healthcare is soliciting your vote at the 2009 annual meeting of Molina Healthcare's stockholders.

**What will I be voting on?**

The election of two Class I directors to hold office until 2012.

**How many votes do I have?**

You will have one vote for every share of Molina Healthcare common stock you owned on March 9, 2009, which was the record date.

**How many votes can be cast by all stockholders?**

26,790,118, 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 13,395,060 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 27, 2009, 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.

---

## **Table of Contents**

### **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 2277 Fair Oaks Boulevard, Suite 440, Sacramento, California 95825. 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 single proposal 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 *for* the two director nominees listed on the card.

### **How are my votes counted?**

You may vote *for* a director, or *withhold authority* to vote for a director. Each nominee for director will be elected if the votes *for* the director exceed the votes *withheld* for the director.

### **How many votes are required to elect the two directors?**

Each director will be elected by the vote of the majority of votes cast with respect to that director nominee. A majority of votes cast means that the number of votes cast for a nominee's election must exceed the number of votes cast against such nominee's election. Each nominee receiving more votes for his or her election than votes against his or her election will be elected.

### **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 New York Stock Exchange (NYSE) has ruled discretionary. The election of directors is a discretionary item. NYSE member brokers that do not receive instructions from beneficial owners may vote your shares at their discretion.

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.

### **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 besides the election of the two director nominees. 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 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 annual report electronically?**

This proxy statement and the 2008 annual report are available on Molina Healthcare's website at [www.molinahealthcare.com](http://www.molinahealthcare.com). From the Molina home page, click on About Molina, then click on Investors, and then click on 2009 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.

### **Annual Report**

If you received these materials by mail, you should have also received with them Molina Healthcare's annual report to stockholders for 2008. The 2008 annual report is also available on Molina Healthcare's website at [www.molinahealthcare.com](http://www.molinahealthcare.com) as described above. We urge you to read these documents carefully. In accordance with the rules of the Securities and Exchange Commission, or SEC, the Company's performance graph appears on page 33 of our 2008 annual report on Form 10-K.

### **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, corporate governance and nominating committee, and compensation committee, as well as Molina Healthcare's Corporate Governance Guidelines and Code of Business Conduct and Ethics, are available in the Investors section of Molina Healthcare's website, [www.molinahealthcare.com](http://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.

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.

## **Table of Contents**

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 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.

For the 2009 annual meeting, we did not receive notice of any director nominations from our stockholders. The committee is continuing its consideration and evaluation of candidates to fill the existing vacancy in Class I of the board.

## **Corporate Governance Guidelines**

Molina Healthcare'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. Our goal is that a majority of the members of the board be independent.

The Guidelines require that all members of the Company's three standing committees be independent. Committee members are appointed by the board upon recommendation of the corporate governance and nominating committee. Committee membership and chairs are 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 2008 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 provides educational sessions on a variety of topics which all members of the board are expected to attend. These sessions are designed 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 evaluate potential successors to the chief executive officer and the chief financial officer.

## **Table of Contents**

### **Director Independence**

The board of directors has determined that, except for Messrs. J. Mario Molina and John C. Molina, each of the directors of the Company, including each of the nominees identified in this proxy statement, has no material relationship with the Company 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 an immediate family member who is, currently an employee of the Company;

Has been, or has an immediate family member who has been, an employee of the Company within the past five years;

Has received, or has an immediate family member who has received, within the past five years more than \$120,000 during any twelve month period in direct compensation from the Company (other than fees for director's services);

Has been affiliated with or employed by, or has an immediate family member who is affiliated with or employed in a professional capacity by, a present or former internal or external auditor of the Company during the past five years;

Has been employed, or has an immediate family member who is employed, as an executive officer of another Company where any of the Company's present executives currently serve or served on the other Company's compensation committee during any of the past five years; or

Has been employed by, or has an immediate family member who is an executive officer of, another Company that makes payments to or receives payments from the Company for property or services in an amount which exceeds the greater of \$1,000,000 or 2% of such other company's consolidated gross annual revenues during any of the past five years.

### **Related Party Transactions**

The board has adopted a policy regarding the review, approval, and monitoring of transactions involving Molina Healthcare 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.

We have an equity investment in a medical service provider that provides certain vision services to our members. We account for this investment under the equity method of accounting because we have an ownership interest in the investee that provides us with significant influence over operating and financial policies of the investee. As of

December 31, 2008 and 2007, our carrying amount for this investment totaled \$3.6 million and \$3.5 million, respectively. During 2007, we paid this provider a \$0.9 million network access fee that was fully amortized as of June 30, 2008. During 2008, we advanced this provider \$1.3 million, of which \$417,000 remained outstanding as of December 31, 2008. We expect to collect this outstanding advance in the first quarter of 2009. For the years ended December 31, 2008, 2007 and 2006, we paid \$15.4 million, \$10.9 million, and \$7.9 million, respectively, for medical service fees to this provider.

We are a party to a fee-for-service agreement with Pacific Hospital of Long Beach ( Pacific Hospital ). Pacific Hospital is owned by Abrazos Healthcare, Inc., the shares of which are held as community property by the husband of Dr. Martha Bernadett, our Executive Vice President, Research and Development and the sister of J. Mario Molina and John C. Molina. Amounts paid under the terms of this fee-for-service agreement were

## **Table of Contents**

\$242,000, \$157,000 and \$357,000 for the years ended December 31, 2008, 2007 and 2006, respectively. We also have a capitation arrangement with Pacific Hospital, where we pay a fixed monthly fee based on member type. We paid Pacific Hospital for capitation services totaling approximately \$3.8 million, \$4.8 million, and \$1.7 million for the years ended December 31, 2008, 2007 and 2006, respectively. We believe that both arrangements with Pacific Hospital are based on prevailing market rates for similar services. Also as of December 31, 2008, we had an advance outstanding to Pacific Hospital totaling \$23,000, which will offset capitation payments in 2009.

## **Compensation Committee Interlocks**

The persons listed on page 14 were the only members of the compensation committee during 2008. No member of the compensation committee was a part of a compensation committee interlock during fiscal year 2008 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](http://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 2008. We intend to disclose amendments to, or waivers of, our Code of Business Conduct and Ethics, if any, on our website.

## **Compliance Hotline**

Molina Healthcare encourages employees to raise possible ethical issues. Molina Healthcare 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 the Molina Healthcare Corporate Secretary, Molina Healthcare, Inc., 2277 Fair Oaks Boulevard, Suite 440, Sacramento, California 95825. 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 NO. 1 ELECTION OF TWO CLASS I DIRECTORS**

Our nine-member board of directors is divided into three classes – Class I, Class II, and Class III – with each class having three board seats. The terms of the Class I directors expire at the 2009 annual meeting, while the terms of the Class II directors expire at the 2010 annual meeting, and the terms of the Class III directors expire at the 2011 annual meeting. There is currently a vacant board seat in Class I of the board of directors.

The current Class I directors are Dr. Frank E. Murray and John P. Szabo, Jr. The directors to be elected as Class I directors at the 2009 annual meeting will serve until the 2012 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 or her election than votes against his or her election will be elected.

The board of directors, upon recommendation of the corporate governance and nominating committee, has nominated the two incumbent Class I directors – Dr. Frank E. Murray and John P. Szabo, Jr. – for election as Class I directors at the 2009 annual meeting. Proxies can only be voted for the two 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.

**DIRECTOR NOMINEES**

<b>Name and Age at Record Date</b>	<b>Position, Principal Occupation, and Business Experience</b>
<b>Frank E. Murray, M.D., 78</b>	<p><b>Retired Private Medical Practitioner</b></p> <p>Served as Molina Healthcare director since June 2004 (Class I director)                      Has over forty years of experience in the health care industry, including significant experience as a private practitioner in internal medicine                      Previously served on the boards of directors of the Kaiser Foundation Health Plans of Kansas City, of Texas, and of North Carolina, and served for 12 years as medical director and chairman of Southern California Permanente Medical Group                      Served on the boards of directors of both the Group Health Association of America and the National Committee for Quality Assurance (NCQA)                      Retired as medical practitioner in 1995</p>
<b>John P. Szabo, Jr., 44</b>	<p><b>Private Investor</b></p> <p>Served as Molina Healthcare director since March 2004 (Class I director)                      In January 2007, founded Flint Ridge Capital LLC, an investment advisory company                      Has over twelve years experience as an equity research analyst, including working from 2000 to 2004 as a sell-side analyst at CIBC World Markets</p>

following healthcare services stocks, and from 1993 to 2000 as a buy-side analyst following numerous sectors  
Prior to career as equity analyst, spent six years in global corporate finance, primarily as an officer of The Mitsubishi Bank  
Earned a B.S.B.A., majoring in Finance and International Business, from Bowling Green State University

**THE BOARD OF DIRECTORS RECOMMENDS THAT THE STOCKHOLDERS VOTE FOR THE ELECTION OF EACH THE TWO NOMINEES LISTED ABOVE.**

**Table of Contents**

**DIRECTORS WHOSE TERMS ARE NOT EXPIRING**

**Name and Age at Record Date      Position, Principal Occupation, and Business Experience**

**Charles Z. Fedak, 57**

**Founder, Charles Z. Fedak & Co., CPAs**

Molina Healthcare director since 2002 (Class II director)  
 Certified public accountant since 1975  
 Founded Charles Z. Fedak & Co., Certified Public Accountants, in 1981  
 Employed by KPMG from 1975 to 1980  
 Holds MBA degree  
 Molina Healthcare audit committee financial expert

**John C. Molina, 44**

**Chief Financial Officer, Molina Healthcare**

Molina Healthcare director since 1994 (Class II director)  
 Executive vice president, financial affairs, since 1995, treasurer since 2002,  
 and chief financial officer since 2003  
 Past president of the California Association of Primary Care Case  
 Management Plans  
 J.D. from the University of Southern California School of Law  
 Brother of J. Mario Molina, M.D., Molina Healthcare's chief executive officer,  
 and of M. Martha Bernadett, M.D., Molina Healthcare's executive vice  
 president research and development

**J. Mario Molina, M.D., 50**

**President and Chief Executive Officer, Molina Healthcare**

Served as president and chief executive officer of Molina Healthcare since  
 succeeding his father and Company founder, Dr. C. David Molina, in 1996  
 Served as chairman of the board since 1996 (Class III director)  
 Served as medical director of Molina Healthcare from 1991 through 1994 and  
 was vice president responsible for provider contracting and relations, member  
 services, marketing and quality assurance from 1994 to 1996  
 Earned an M.D. from the University of Southern California and performed  
 medical internship and residency at the Johns Hopkins Hospital  
 Brother of John C. Molina, Molina Healthcare's chief financial officer, and  
 M. Martha Bernadett, M.D., Molina Healthcare's executive vice president  
 research and development

**Steven J. Orlando, 57**

**Founder, Orlando Company**

Served as Molina Healthcare director since November 2004 (Class III director)  
 Has over 30 years of business and corporate finance experience  
 From 1988 to 1994 and from 2000 to the present, has operated his own  
 financial management and business consulting practice, Orlando Company

From 1997 to 2000, served as the chief financial officer of System Integrators, Inc., an international software company

Served on multiple corporate boards, including service as chairman of the audit committee for Pacific Crest Capital, Inc., a Nasdaq-listed corporation

Certified public accountant

**Table of Contents**

**Name and Age at Record Date      Position, Principal Occupation, and Business Experience**

**Ronna E. Romney, 65**

**Director, Park-Ohio Holding Corporation**

Served as Molina Healthcare director since 1999 (Class III director)  
 Director of Molina Healthcare of Michigan from 1999 to 2004  
 Since 1999 to present, served as director for Park-Ohio Holding Corporation, a publicly-traded logistics company  
 Candidate for the United States Senate in 1996  
 From 1989 to 1993, served as Chairperson of the President's Commission on White House Fellowships  
 From 1984 to 1992, served as the Republican National Committeewoman for the state of Michigan  
  
 From 1982 to 1985, served as Commissioner of the President's National Advisory Council on Adult Education

**Sally K. Richardson, 76**

**Executive Director, Institute for Health Policy Research**

Molina Healthcare director since 2003 (Class II director)  
 Since 1999, served as the Executive Director of the Institute for Health Policy Research and as Associate Vice President for the Health Sciences Center of West Virginia University  
 From 1997 to 1999, served as the Director of the Center for Medicaid and State Operations, Health Care Financing Administration, U.S. Department of Health and Human Services  
 In 1993, served as a member of the White House Health Care Reform Task Force  
 Currently serves on the National Advisory Committee on Rural Health, U.S. Department of Health and Human Resources, and the Policy Council, National Office of March of Dimes

**Meetings of the Board of Directors and Committees**

During 2008, the board of directors met nine times, the audit committee met seven times, the corporate governance and nominating committee met four times, and the compensation committee met six times. Each director attended at least 75% of the total number of meetings of the board and board committees of which he or she was a member in 2008, and each director attended the 2008 annual meeting of stockholders held on May 15, 2008.

**Meetings of Non-Management Directors**

Molina Healthcare's non-management directors meet in executive session without any management directors in attendance each time the full board convenes for a regularly scheduled in-person board meeting, which is usually four times each year, and, if the board convenes a special meeting, the non-management directors may meet in executive session if the circumstances warrant. The lead independent director presides at each executive session of the non-management directors.

**Committees of the Board of Directors**

The three standing committees of the board of directors are: (i) the audit committee; (ii) the corporate governance and nominating committee; and (iii) the compensation committee.

The audit committee performs a number of functions, including: (i) reviewing the adequacy of the Company's internal system of accounting controls, (ii) meeting with the independent accountants and management to review and discuss various matters pertaining to the audit, including the Company's financial statements, the report of the independent accountants on the results, scope, and terms of their work, and the recommendations of the independent accountants concerning the financial practices, controls, procedures, and policies employed by the

## **Table of Contents**

Company, (iii) resolving disagreements between management and the independent accountants regarding financial reporting, (iv) reviewing the financial statements of the Company, (v) selecting, evaluating, and, when appropriate, replacing the independent accountants, (vi) reviewing and approving fees to be paid to the independent accountants, (vii) reviewing and approving related-party transactions, (viii) reviewing and approving all permitted non-audit services to be performed by the independent accountants, (ix) establishing procedures for the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters and the confidential, anonymous submission by the Company's employees of concerns regarding questionable accounting or auditing matters, (x) considering other appropriate matters regarding the financial affairs of the Company, and (xi) fulfilling the other responsibilities set out in its charter, as adopted by the board. The report of the audit committee required by the rules of the SEC is included in this proxy statement.

The audit committee consists of Mr. Fedak (Chair), Ms. Romney, Mr. Szabo, and Mr. Orlando. The board has determined that each of Mr. Fedak and Mr. Orlando qualify as an audit committee financial expert as defined by the SEC. In addition to being independent according to the board's independence standards as set out in its Corporate Governance Guidelines, each member of the audit committee is independent within the meaning of the corporate governance rules of the NYSE. Each member of the audit committee is also financially literate. The audit committee charter is available for viewing in the Investors section of Molina Healthcare's website, [www.molinahealthcare.com](http://www.molinahealthcare.com), under the link, Corporate Governance.

The corporate governance and nominating committee is responsible for identifying individuals qualified to become board members and recommending to the board the director nominees for the next annual meeting of stockholders. It leads the board in its annual review of the board's performance and recommends to the board director candidates for each committee for appointment by the board. The committee takes a leadership role in shaping corporate governance policies and practices, including recommending to the board the Corporate Governance Guidelines and monitoring Molina Healthcare's compliance with these Guidelines. The committee is responsible for reviewing potential conflicts of interest involving directors, executive officers, or their immediate family members. The committee also reviews Molina Healthcare's Code of Business Conduct and Ethics and other internal policies to monitor that the principles contained in the Code are being incorporated into Molina Healthcare's culture and business practices.

The corporate governance and nominating committee currently consists of Ms. Romney (Chair), Ms. Richardson, and Dr. Murray, each of whom is independent under the NYSE listing standards and the Company's Corporate Governance Guidelines. The corporate governance and nominating committee charter is available for viewing in the Investors section of Molina Healthcare's website, [www.molinahealthcare.com](http://www.molinahealthcare.com), under the link, Corporate Governance.

The compensation committee is responsible for determining the compensation for Dr. Molina, our chief executive officer, for John Molina, our chief financial officer, and also approves the compensation Dr. Molina recommends as chief executive officer for the other senior executive officers. The committee reviews and discusses with management the Compensation Discussion and Analysis, and, if appropriate, recommends to the board that the Compensation Discussion and Analysis be included in Molina Healthcare's filings with the SEC. In addition, the committee administers Molina Healthcare's 2002 Equity Incentive Plan. The committee also reviews Molina Healthcare's succession planning and executive development activities, as well as the performance of senior management.

Each committee has the authority to retain special consultants or experts to advise the committee, as the committee may deem appropriate or necessary in its sole discretion. From time to time, the compensation committee has retained a compensation consultant to provide the committee with comparative data on executive compensation and advice on Molina Healthcare's compensation programs for senior management.

The compensation committee currently consists of Mr. Szabo (Chair), Mr. Fedak, Ms. Richardson, Mr. Orlando, and Dr. Murray. The board has determined that in addition to being independent according to the board's independence

standards as set out in its Corporate Governance Guidelines, each of the members of the compensation committee is independent according to the corporate governance rules of the NYSE. In addition, each of the members of the committee is a non-employee director, as defined in Section 16 of the Securities Exchange Act of 1934, and is also an outside director, as defined by Section 162(m) of the Internal Revenue Code.



**Table of Contents**

A copy of the compensation committee charter is available for viewing in the Investors section of Molina Healthcare's website, [www.molinahealthcare.com](http://www.molinahealthcare.com), under the link, Corporate Governance.

**Non-Employee Director Compensation**

The compensation committee makes recommendations to the board with respect to the compensation level of directors, and the board determines their compensation. The compensation committee annually reviews benchmarking assessments of director compensation at comparable companies in order to determine competitive levels of compensation to attract qualified candidates for board service. Following its 2008 review of director compensation paid at comparable companies, the compensation committee decided to make no change for 2009 to its existing policy regarding non-employee director compensation.

We pay each non-employee director an annual retainer of \$35,000. We also pay an additional annual retainer of \$7,500 to the chair of the audit committee, \$5,000 to each audit committee member, and \$2,500 to the chairs of each of the corporate governance and nominating committee and the compensation committee. We pay each non-employee director \$1,200 for each board and committee meeting attended in person, except each audit committee member receives \$2,400 for each audit committee meeting attended, and each member of the special committee also received \$2,400 for each special committee meeting attended. Non-employee directors also receive \$600 for participation in each telephonic board meeting. The members of the pricing committee received no compensation.

In order to link the financial interests of the non-employee directors to the interests of the stockholders, encourage support of the Company's long-term goals, and align director compensation to the Company's performance, each non-employee director also receives upon his or her initial election to the board of directors an option to purchase 10,000 shares of common stock, vesting in ratable one-third increments over three years, with an exercise price equal to the closing price of Molina Healthcare's common stock as of the date of grant. In addition, each non-employee director is granted annually 5,000 shares of common stock, vesting in 1,250 share increments at the end of each fiscal quarter subsequent to the date of the annual stockholder meeting. The total value of this stock grant in 2008 was \$130,400.

Directors who are employees of Molina Healthcare or its subsidiaries do not receive any compensation for their services as directors. In 2008, the directors who were employees were Dr. J. Mario Molina and John Molina.

Molina Healthcare also reimburses its board members for expenses incurred in attending board and committee meetings or performing other services for Molina Healthcare in their capacities as directors. Such expenses include food, lodging, and transportation.

**NON-EMPLOYEE DIRECTOR COMPENSATION**

<b>Name</b>	<b>Fees Earned or Paid in Cash (\$)</b>	<b>Stock Awards (\$)(a)</b>	<b>Option Awards (\$)</b>	<b>All Other Compensation (\$)</b>	<b>Total (\$)</b>
Charles Z. Fedak	77,300	130,400			207,700
Frank E. Murray	52,600	130,400			