

MOLINA HEALTHCARE INC  
Form 10-Q  
May 03, 2016  
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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 March 31, 2016

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 13-4204626  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

200 Oceangate, Suite 100 90802  
Long Beach, California  
(Address of principal executive offices) (Zip Code)  
(562) 435-3666  
(Registrant's telephone number, including area code)

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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, \$0.001 par value, outstanding as of April 25, 2016, was approximately 56,584,000.

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MOLINA HEALTHCARE, INC.  
Form 10-Q

For the Quarterly Period Ended March 31, 2016

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## MOLINA HEALTHCARE, INC.

## CONSOLIDATED BALANCE SHEETS

|   | March 31,<br>2016   | December 31,<br>2015 |
|---|---|----------------------|
|   | (Amounts in millions,<br>except per-share<br>data)<br>(Unaudited) |                      |
| <b>ASSETS</b>   |   |                      |
| Current assets:   |   |                      |
| Cash and cash equivalents   | \$2,156   | \$ 2,329             |
| Investments   | 2,070   | 1,801                |
| Receivables   | 863   | 597                  |
| Income taxes refundable   | 38  | 13                   |
| Prepaid expenses and other current assets   | 260   | 192                  |
| Derivative asset  | 377   | 374                  |
| Total current assets  | 5,764   | 5,306                |
| Property, equipment, and capitalized software, net  | 419   | 393                  |
| Deferred contract costs   | 79  | 81                   |
| Intangible assets, net  | 149   | 122                  |
| Goodwill  | 619   | 519                  |
| Restricted investments  | 116   | 109                  |
| Deferred income taxes   | —   | 18                   |
| Other assets  | 37  | 28                   |
|   | \$7,183   | \$ 6,576             |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |   |                      |
| Current liabilities:  |   |                      |
| Medical claims and benefits payable   | \$1,940   | \$ 1,685             |
| Amounts due government agencies   | 910   | 729                  |
| Accounts payable and accrued liabilities  | 601   | 362                  |
| Deferred revenue  | 94  | 223                  |
| Current portion of long-term debt   | 455   | 449                  |
| Derivative liability  | 377   | 374                  |
| Total current liabilities   | 4,377   | 3,822                |
| Senior notes  | 965   | 962                  |
| Lease financing obligations   | 198   | 198                  |
| Deferred income taxes   | 15  | —                    |
| Other long-term liabilities   | 38  | 37                   |
| Total liabilities   | 5,593   | 5,019                |
| Stockholders' equity:   |   |                      |
| Common stock, \$0.001 par value; 150 shares authorized; outstanding: 57 shares at March 31, 2016 and 56 shares at December 31, 2015 | —   | —                    |
| Preferred stock, \$0.001 par value; 20 shares authorized, no shares issued and outstanding  | —   | —                    |
| Additional paid-in capital  | 806   | 803                  |
| Accumulated other comprehensive gain (loss)   | 2   | (4)                  |

|                            |         |          |
|----------------------------|---------|----------|
| Retained earnings          | 782     | 758      |
| Total stockholders' equity | 1,590   | 1,557    |
|                            | \$7,183 | \$ 6,576 |

See accompanying notes.

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## MOLINA HEALTHCARE, INC.

## CONSOLIDATED STATEMENTS OF INCOME

|                                     | Three Months<br>Ended March<br>31,<br>2016 2015<br>(In millions,<br>except<br>per-share data)<br>(Unaudited) |         |
|-------------------------------------|--|---------|
| Revenue:                            |  |         |
| Premium revenue                     | \$3,995  | \$2,971 |
| Service revenue                     | 140  | 52      |
| Premium tax revenue                 | 109  | 95      |
| Health insurer fee revenue          | 90   | 48      |
| Investment income                   | 8  | 3       |
| Other revenue                       | 1  | 2       |
| Total revenue                       | 4,343  | 3,171   |
| Operating expenses:                 |  |         |
| Medical care costs                  | 3,588  | 2,636   |
| Cost of service revenue             | 127  | 36      |
| General and administrative expenses | 340  | 256     |
| Premium tax expenses                | 109  | 95      |
| Health insurer fee expenses         | 58   | 41      |
| Depreciation and amortization       | 32   | 25      |
| Total operating expenses            | 4,254  | 3,089   |
| Operating income                    | 89   | 82      |
| Interest expense                    | 25   | 15      |
| Income before income tax expense    | 64   | 67      |
| Income tax expense                  | 40   | 39      |
| Net income                          | \$24   | \$28    |

## Net income per share:

|         |        |        |
|---------|--------|--------|
| Basic   | \$0.44 | \$0.58 |
| Diluted | \$0.43 | \$0.56 |

See accompanying notes.

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MOLINA HEALTHCARE, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

|  | Three<br>Months<br>Ended<br>March 31,<br>2016 2015 |       |
|--|--|-------|
|  | (Amounts<br>in millions)<br>(Unaudited)            |       |
| Net income                             | \$ 24  | \$ 28 |
| Other comprehensive income:            |  |       |
| Unrealized investment gain             | 9  | 2     |
| Less: effect of income taxes           | 3  | 1     |
| Other comprehensive income, net of tax | 6  | 1     |
| Comprehensive income                   | \$ 30  | \$ 29 |

See accompanying notes.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

|   | Three Months<br>Ended March 31, |         |
|---|---------------------------------|---------|
|   | 2016                            | 2015    |
|   | (Amounts in<br>millions)        |         |
|   | (Unaudited)                     |         |
| Operating activities:   |                                 |         |
| Net income  | \$24                            | \$28    |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                 |         |
| Depreciation and amortization   | 44                              | 33      |
| Deferred income taxes   | 30                              | 1       |
| Share-based compensation  | 7                               | 6       |
| Amortization of convertible senior notes and lease financing obligations          | 8                               | 7       |
| Other, net  | 6                               | 3       |
| Changes in operating assets and liabilities:                                      |                                 |         |
| Receivables   | (266                            | ) 105   |
| Prepaid expenses and other assets   | (202                            | ) (137  |
| Medical claims and benefits payable   | 255                             | 248     |
| Amounts due government agencies   | 181                             | 95      |
| Accounts payable and accrued liabilities  | 205                             | 189     |
| Deferred revenue  | (129                            | ) (26   |
| Income taxes  | (24                             | ) 2     |
| Net cash provided by operating activities   | 139                             | 554     |
| Investing activities:   |                                 |         |
| Purchases of investments  | (611                            | ) (438  |
| Proceeds from sales and maturities of investments                                 | 348                             | 255     |
| Purchases of property, equipment and capitalized software                         | (46                             | ) (25   |
| Increase in restricted investments  | (4                              | ) (5    |
| Net cash paid in business combinations  | (2                              | ) (8    |
| Other, net  | 1                               | (7      |
| Net cash used in investing activities   | (314                            | ) (228  |
| Financing activities:   |                                 |         |
| Proceeds from employee stock plans  | —                               | 1       |
| Other, net  | 2                               | 4       |
| Net cash provided by financing activities   | 2                               | 5       |
| Net (decrease) increase in cash and cash equivalents                              | (173                            | ) 331   |
| Cash and cash equivalents at beginning of period                                  | 2,329                           | 1,539   |
| Cash and cash equivalents at end of period  | \$2,156                         | \$1,870 |



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MOLINA HEALTHCARE, INC.  
 CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (continued)

|  | Three Months<br>Ended March<br>31,<br>2016 2015<br>(Amounts in<br>millions)<br>(Unaudited) |        |
|--|--|--------|
| Supplemental cash flow information:                      |  |        |
| Schedule of non-cash investing and financing activities: |  |        |
| Common stock used for share-based compensation           | \$(7 )   | \$(9 ) |
| Details of change in fair value of derivatives, net:     |  |        |
| Gain on 1.125% Call Option                               | \$3  | \$145  |
| Loss on 1.125% Conversion Option                         | (3 )   | (145 ) |
| Change in fair value of derivatives, net                 | \$—  | \$—    |
| Details of business combinations:                        |  |        |
| Fair value of assets acquired                            | \$(134)  | \$—    |
| Purchase price amounts accrued/received (paid)           | 30   | (8 )   |
| Reversal of amounts advanced to sellers in prior year    | 102  | —      |
| Net cash paid in business combinations                   | \$(2 )   | \$(8 ) |

See accompanying notes.

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MOLINA HEALTHCARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

March 31, 2016

1. Basis of Presentation

Organization and Operations

Molina Healthcare, Inc. provides quality health care to people receiving government assistance. We offer cost-effective Medicaid-related solutions to meet the health care needs of low-income families and individuals, and to assist government agencies in their administration of the Medicaid program. We have three reportable segments. These segments include our Health Plans and Molina Medicaid Solutions segments, which comprise the vast majority of our operations, and our Other segment. As of December 31, 2015, we changed our reporting structure as a result of the Pathways acquisition in November 2015, which is reported in Other. All prior periods reported conform to this presentation.

Our Health Plans segment consists of health plans in 11 states and the Commonwealth of Puerto Rico, and includes our direct delivery business. As of March 31, 2016, these health plans served 4.2 million members eligible for Medicaid, Medicare, and other government-sponsored health care programs for low-income families and individuals. Additionally, we serve Health Insurance Marketplace (Marketplace) members, most of whom receive government premium subsidies. The health plans are operated by our respective wholly owned subsidiaries in those states, each of which is licensed as a health maintenance organization (HMO). Our direct delivery business consists primarily of the operation of primary care clinics in several states in which we operate.

Our Molina Medicaid Solutions segment provides business processing and information technology development and administrative services to Medicaid agencies in Idaho, Louisiana, Maine, New Jersey, West Virginia, and the U.S. Virgin Islands, and drug rebate administration services in Florida.

Our Other segment includes businesses, such as our Pathways behavioral health and social services provider, that do not meet the quantitative thresholds for a reportable segment as defined by U.S. generally accepted accounting principles (GAAP), as well as corporate amounts not allocated to other reportable segments.

Market Updates - Health Plans

Illinois. On January 1, 2016, our Illinois health plan closed on its acquisition of the Medicaid membership, and certain assets related to the Medicaid business of, Accountable Care Chicago, LLC, also known as MyCare Chicago. See Note 4, "Business Combinations," for further information.

On January 1, 2016, our Illinois health plan closed on its acquisition of the Medicaid membership, and certain assets related to the Medicaid business, of Loyola Physician Partners, LLC. See Note 4, "Business Combinations," for further information.

On March 1, 2016, our Illinois health plan closed on its acquisition of the Medicaid membership, and certain assets related to the Medicaid business, of Better Health Network, LLC. See Note 4, "Business Combinations," for further information.

Michigan. On January 1, 2016, our Michigan health plan closed on its acquisition of the Medicaid and MICHild membership, and certain Medicaid and MICHild assets, of HAP Midwest Health Plan, Inc. See Note 4, "Business Combinations," for further information.

New York. On April 19, 2016, we entered into an agreement with Universal American Corp. to acquire all outstanding equity interests of Today's Options of New York, Inc., which operates the Total Care Medicaid plan. Subject to regulatory approvals and the satisfaction of other closing conditions, we expect the transaction to close in the second half of 2016.

Washington. On January 1, 2016, our Washington health plan closed on its acquisition of the Medicaid contracts, and certain assets related to the operation of the Medicaid business, of Columbia United Providers, Inc. See Note 4, "Business Combinations," for further information.

Consolidation and Interim Financial Information

The consolidated financial statements include the accounts of Molina Healthcare, Inc., its subsidiaries, and variable interest entities (VIEs) in which Molina Healthcare, Inc. is considered to be the primary beneficiary. Such VIEs are

insignificant to our consolidated financial position and results of operations. In the opinion of management, all adjustments considered necessary for a fair presentation of the results as of the date and for the interim periods presented have been included; such adjustments consist of normal recurring adjustments. All significant intercompany balances and transactions have been eliminated. The consolidated results of operations for the current interim period are not necessarily indicative of the results for the entire year ending December 31, 2016.

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The unaudited consolidated interim financial statements have been prepared under the assumption that users of the interim financial data have either read or have access to our audited consolidated financial statements for the fiscal year ended December 31, 2015. Accordingly, certain disclosures that would substantially duplicate the disclosures contained in the December 31, 2015 audited consolidated financial statements have been omitted. These unaudited consolidated interim financial statements should be read in conjunction with our December 31, 2015 audited consolidated financial statements.

## 2. Significant Accounting Policies

### Revenue Recognition – Health Plans Segment

Premium revenue is fixed in advance of the periods covered and, except as described below, is not generally subject to significant accounting estimates. Premium revenues are recognized in the month that members are entitled to receive health care services, and premiums collected in advance are deferred. Certain components of premium revenue are subject to accounting estimates and fall into the following categories:

#### Contractual Provisions That May Adjust or Limit Revenue or Profit

##### Medicaid

**Medical Cost Floors (Minimums), Medical Cost Corridors, and Administrative Cost Ceilings (Maximums):** A portion of certain premiums received by our health plans may be returned if certain minimum amounts are not spent on defined medical care costs. In the aggregate, we recorded a liability under the terms of such contract provisions of \$278 million and \$214 million at March 31, 2016 and December 31, 2015, respectively, to amounts due government agencies. Approximately \$270 million and \$208 million of the liability accrued at March 31, 2016 and December 31, 2015, respectively, relates to our participation in Medicaid Expansion programs.

In certain circumstances, the health plans may receive additional premiums if amounts spent on medical care costs exceed a defined maximum threshold. We recorded receivables of \$1 million and \$3 million at March 31, 2016 and December 31, 2015, respectively, relating to such provisions.

**Profit Sharing and Profit Ceiling:** Our contracts with certain states contain profit-sharing or profit ceiling provisions under which we refund amounts to the states if our health plans generate profit above a certain specified percentage. In some cases, we are limited in the amount of administrative costs that we may deduct in calculating the refund, if any. Under these provisions we recorded a receivable of \$2 million at March 31, 2016, for estimated amounts overpaid for prior periods, and a liability of \$10 million at December 31, 2015, for profit in excess of the amount we are allowed to retain.

**Retroactive Premium Adjustments:** The state Medicaid programs periodically adjust premium rates on a retroactive basis. In these cases, we must adjust our premium revenue in the period in which we learn of the adjustment, rather than in the months of service to which the retroactive adjustment applies. For example, in the first quarter of 2016 we recorded a retroactive increase to Medicaid premium revenue of approximately \$18 million, relating to dates of service prior to 2016.

**Cost Plus Retroactive Premium Adjustments:** In New Mexico, when members are retroactively enrolled into our health plan we earn revenue only to the extent of the actual medical costs incurred by us for services provided during those retroactive periods, plus a small percentage of that medical cost for administration and profit. This cost plus arrangement for members retroactively enrolled in our health plan first became effective July 1, 2014 (retroactive to January 1, 2014). We are paid normal monthly capitation rates for the retroactive eligibility periods, and the difference between those capitation rates and the amounts due us on a cost plus basis are periodically settled with the state. To date, no such settlement has been made with the state. During the years ended December 31, 2014 and 2015, our New Mexico contract was not specific as to the definition of retroactive membership, and the amount we owe the state (or that the state owes us) for the difference between capitation received and amounts due to us under the cost plus arrangement during those periods varies widely depending upon the definition of retroactive membership.

In August 2015, the state provided us with a request for payment under the terms of this contract provision for the period January 1, 2014 through December 31, 2014. That request was based upon definitions of retroactive membership that were at odds with our interpretations of that term. Using the state's definition of retroactive membership, we estimate that the state may ultimately seek repayment of an amount that ranges from \$25 million to \$30 million higher than the amount we have accrued. We do not believe that any reasonable definition of retroactive

membership supports the state's position, and expect to resolve this matter with payment of the amount we have accrued at March 31, 2016. We are currently engaged in discussions with the state regarding the appropriate amount, if any, owed to the state under this contract term.

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## Medicare

Risk Adjustment: Our Medicare premiums are subject to retroactive increase or decrease based on the health status of our Medicare members (measured as a member risk score). We estimate our members' risk scores and the related amount of Medicare revenue that will ultimately be realized for the periods presented based on our knowledge of our members' health care utilization patterns, risk scores and CMS practices. Based on our estimates, we have recorded a net receivable of \$13 million and a net payable of \$4 million for anticipated Medicare risk adjustment premiums at March 31, 2016 and December 31, 2015, respectively.

## Marketplace

Premium Stabilization Programs: The Affordable Care Act (ACA) established Marketplace premium stabilization programs effective January 1, 2014. These programs, commonly referred to as the "3R's," include a permanent risk adjustment program, a transitional reinsurance program, and a temporary risk corridor program.

Permanent risk adjustment program: Under this permanent program, our health plans' composite risk scores are compared to the overall average risk score for the relevant state and market pool. Generally, our health plans will pay into the pool if their composite risk scores are below the average risk score, and will receive funds from the pool if their composite risk scores are above the average risk score. We estimate our ultimate premium based on insurance policy year-to-date experience, and recognize estimated premiums relating to the risk adjustment program as an adjustment to premium revenue in our consolidated statements of income. To better estimate amounts to be accrued, we utilize third party sources that attempt to estimate the overall average risk score for the relevant state and market pools. In the first quarter of 2016, we recorded an additional liability of approximately \$20 million related to 2015 based upon new information primarily obtained from third party sources.

Transitional reinsurance program: This program is designed to provide reimbursement to insurers for high cost members. Our health plans pay an annual contribution on a per-member basis, and are eligible for recoveries if claims for individual members exceed a specified threshold, up to a maximum amount. This three-year program will end on December 31, 2016. We recognize the assessments to fund the transitional reinsurance program as a reduction to premium revenue in our consolidated statements of income. We recognize recoveries under the reinsurance program as a reduction to medical care costs in our consolidated statements of income.

Temporary risk corridor program: This program is intended to limit gains and losses of insurers by comparing allowable costs to a target amount as defined by the U.S. Department of Health and Human Services (HHS). Variances from the target amount exceeding certain thresholds may result in amounts due to or receivables due from HHS. This three-year program will end on December 31, 2016. Due to uncertainties as to the amount of federal funding available to support the risk corridor program, we do not recognize amounts receivable under this program. All liabilities are recognized as incurred. We estimate our ultimate premium based on insurance policy year-to-date experience, and recognize estimated premiums relating to the risk corridor program as an adjustment to premium revenue in our consolidated statements of income.

Additionally, the ACA established a minimum annual medical loss ratio (Minimum MLR) of 80% for the Marketplace. The medical loss ratio represents medical costs as a percentage of premium revenue. What constitutes medical costs and premium revenue are specifically defined by federal regulations. If the Minimum MLR is not met, we may be required to pay rebates to our Marketplace policyholders. Each of the 3R programs is taken into consideration when computing the Minimum MLR. We recognize estimated rebates under the Minimum MLR as an adjustment to premium revenue in our consolidated statements of income.

We record receivables or payables related to the 3R programs and the Minimum MLR when the amounts are reasonably estimable as described above, and, for receivables, collection is reasonably assured.

Our receivables (payables) for each of these programs, as of the dates indicated, were as follows:

|                 | March 31, 2016 | December 31, 2015 |
|-----------------|----------------|-------------------|
|                 | (In millions)  |                   |
| Risk adjustment | \$(301)        | \$(214)           |
| Reinsurance     | 47             | 36                |
| Risk corridor   | (15)           | (10)              |

Minimum MLR (11 ) (3 )

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## Quality Incentives

At several of our health plans, revenue ranging from approximately 1% to 4% of certain health plan premiums is earned only if certain performance measures are met.

The following table quantifies the quality incentive premium revenue recognized for the periods presented, including the amounts earned in the period presented and prior periods. Although the reasonably possible effects of a change in estimate related to quality incentive premium revenue as of March 31, 2016 are not known, we have no reason to believe that the adjustments to prior years noted below are not indicative of the potential future changes in our estimates as of March 31, 2016.

|   | Three<br>Months<br>Ended March<br>31,<br>2016 2015<br>(In millions) |      |
|---|---|------|
| Maximum available quality incentive premium - current period              | \$40  | \$30 |
| Amount of quality incentive premium revenue recognized in current period: |   |      |
| Earned current period   | \$18  | \$10 |
| Earned prior periods  | 5   | —    |
| Total   | \$23  | \$10 |

Quality incentive premium revenue recognized as a percentage of total premium revenue 0.6 % 0.3 %

## Income Taxes

The provision for income taxes is determined using an estimated annual effective tax rate, which is generally greater than the U.S. federal statutory rate primarily because of state taxes, nondeductible expenses such as the Health Insurer Fee (HIF), certain compensation, and other general and administrative expenses. The effective tax rate may be subject to fluctuations during the year, particularly as a result of the level of pretax earnings, and also as new information is obtained. Such information may affect the assumptions used to estimate the annual effective tax rate, including factors such as the mix of pretax earnings in the various tax jurisdictions in which we operate, valuation allowances against deferred tax assets, the recognition or the reversal of the recognition of tax benefits related to uncertain tax positions, and changes in or the interpretation of tax laws in jurisdictions where we conduct business. We recognize deferred tax assets and liabilities for temporary differences between the financial reporting basis and the tax basis of our assets and liabilities, along with net operating loss and tax credit carryovers.

## Recent Accounting Pronouncements

In April 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-10, Identifying Performance Obligations and Licensing, which amends certain aspects of ASC 606, Revenue from Contracts with Customers. ASU 2016-10 amends step two of the new revenue standard's five-step model to include guidance on immaterial promised goods or services, shipping and handling activities and identifying when promises represent performance obligations. ASU 2016-10 also provided guidance related to licensing such as, but not limited to, sales-based and usage-based royalties and renewals of license that provide a right to use intellectual property. We intend to adopt this standard on January 1, 2018. We are evaluating the potential effects of the adoption to our financial statements.

In March 2016, the FASB issued ASU 2016-09, Compensation-Stock Compensation, which simplifies several aspects of accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, statutory tax and classification in the statement of cash flows. ASU 2016-09 is effective for fiscal periods beginning after December 15, 2016 and must be adopted using the modified retrospective approach except for classification in the statement of cash flows, which must be adopted using either the prospective or retrospective approach. Early adoption is permitted. We are evaluating the potential effects of the adoption to our financial statements.

In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers - Principal vs. Agent Considerations, which amends the principal-versus-agent implementation guidance in ASC 606. ASU 2016-08 clarifies



that an entity should evaluate whether it is the principal or agent for each specified good or service promised in a contract with a customer as defined in ASC 606. The entity must first identify each specified good or service to be provided to the customer and then assess whether it controls each specified good or service. The ASU also removed two of the five indicators used in evaluating control under the old guidance and reframes the remaining three indicators. We intend to adopt this standard on January 1, 2018. We are evaluating the potential effects of the adoption to our financial statements.

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Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the American Institute of Certified Public Accountants, and the Securities and Exchange Commission (SEC) did not have, or are not believed by management to have, a material impact on our present or future consolidated financial statements.

## 3. Net Income per Share

The following table sets forth the calculation of basic and diluted net income per share:

|  | Three<br>Months<br>Ended<br>March 31,<br>2016 2015<br>(In millions,<br>except net<br>income per<br>share) |        |
|--|---|--------|
| Numerator:                                   |   |        |
| Net income                                   | \$24  | \$28   |
| Denominator:                                 |   |        |
| Denominator for basic net income per share   | 55  | 49     |
| Effect of dilutive securities:               |   |        |
| Share-based compensation                     | 1   | —      |
| 1.125% Warrants (1)                          | 1   | 1      |
| Denominator for diluted net income per share | 57  | 50     |
| Net income per share: (2)                    |   |        |
| Basic  | \$0.44  | \$0.58 |
| Diluted                                      | \$0.43  | \$0.56 |

(1) For more information regarding the 1.125% Warrants, refer to Note 11, "Derivatives."

(2) Source data for calculations in thousands.

Certain potentially dilutive common shares issuable are not included in the computation of diluted net income per share because to do so would be anti-dilutive.

## 4. Business Combinations

In the first quarter of 2016, we closed on several business combinations in the Health Plans segment. For all of these transactions we applied the acquisition method of accounting, where the total purchase price was allocated, or preliminarily allocated, to tangible and intangible assets acquired, and liabilities assumed based on their respective fair values. For Health Plans acquisitions, in general, only intangible assets are acquired. All of these acquisitions were funded using available cash and acquisition-related costs were insignificant.

## Health Plans

Consistent with our strategy to grow in our existing markets, we closed the following Health Plans acquisitions in 2016:

Illinois. On January 1, 2016, our Illinois health plan closed on its acquisition of the Medicaid membership, and certain assets related to the Medicaid business of, Accountable Care Chicago, LLC, also known as MyCare Chicago. The initial purchase price was approximately \$35 million, and the Illinois health plan added approximately 58,000 Medicaid members as a result of this transaction.

On January 1, 2016, our Illinois health plan closed on its acquisition of the Medicaid membership, and certain assets related to the Medicaid business, of Loyola Physician Partners, LLC. The initial purchase price was approximately \$15 million, and the Illinois health plan added approximately 21,000 Medicaid members as a result of this transaction.

On March 1, 2016, our Illinois health plan closed on its acquisition of the Medicaid membership, and certain assets related to the Medicaid business, of Better Health Network, LLC. The initial purchase price was approximately \$18 million, and the Illinois health plan added approximately 34,000 Medicaid members as a result of this transaction. Michigan. On January 1, 2016, our Michigan health plan closed on its acquisition of the Medicaid and MICHild membership, and certain Medicaid and MICHild assets, of HAP Midwest Health Plan, Inc. The initial purchase price was approximately \$36

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million, and the Michigan health plan added approximately 81,000 Medicaid and MICHild members as a result of this transaction.

Washington. On January 1, 2016, our Washington health plan closed on its acquisition of the Medicaid contracts, and certain assets related to the operation of the Medicaid business, of Columbia United Providers, Inc. The final purchase price was approximately \$28 million, and the Washington health plan added approximately 57,000 Medicaid members as a result of this transaction.

For the acquisitions described above, we recorded goodwill to the Health Plans segment amounting to \$98 million in the aggregate, which relates to future economic benefits arising from expected synergies to be achieved. Such synergies include use of our existing infrastructure to support the added membership. The amount recorded as goodwill is deductible for income tax purposes.

The following table presents the intangible assets identified in the transactions described above. The weighted-average amortization period, in the aggregate, is 5.9 years. For these acquisitions in the aggregate, we expect to record amortization of approximately \$6 million per year in the years 2016 through 2020 and \$1 million in 2021.

|                               | Fair<br>Value<br>(In<br>millions) | Life<br><br>(Years) |
|-------------------------------|-----------------------------------|---------------------|
| Intangible asset type:        |                                   |                     |
| Contract rights - member list | \$ 28                             | 5                   |
| Provider network              | 6                                 | 10                  |
|                               | \$ 34                             |                     |

#### 5. Fair Value Measurements

We consider the carrying amounts of cash and cash equivalents and other current assets and current liabilities (not including derivatives and current portion of long-term debt) to approximate their fair values because of the relatively short period of time between the origination of these instruments and their expected realization or payment. For our financial instruments measured at fair value on a recurring basis, we prioritize the inputs used in measuring fair value according to a three-tier fair value hierarchy as follows:

##### Level 1 — Observable Inputs

Level 1 financial instruments are actively traded and therefore the fair value for these securities is based on quoted market prices on one or more securities exchanges.

##### Level 2 — Directly or Indirectly Observable Inputs

Level 2 financial instruments are traded frequently though not necessarily daily. Fair value for these investments is determined using a market approach based on quoted prices for similar securities in active markets or quoted prices for identical securities in inactive markets.

##### Level 3 — Unobservable Inputs

Level 3 financial instruments are valued using unobservable inputs that represent management's best estimate of what market participants would use in pricing the financial instrument at the measurement date. Our Level 3 financial instruments include the following:

**Derivative financial instruments.** Derivative financial instruments include the 1.125% Call Option derivative asset and the 1.125% Conversion Option derivative liability. These derivatives are not actively traded and are valued based on an option pricing model that uses observable and unobservable market data for inputs. Significant market data inputs used to determine fair value as of March 31, 2016 included the price of our common stock, the time to maturity of the derivative instruments, the risk-free interest rate, and the implied volatility of our common stock. As described further in Note 11, "Derivatives," the 1.125% Call Option asset and the 1.125% Conversion Option liability were designed such that changes in their fair values would offset, with minimal impact to the consolidated statements of income.

Therefore, the sensitivity of changes in the unobservable inputs to the option pricing model for such instruments is mitigated.

The changes in fair value of Level 3 financial instruments for the three months ended March 31, 2016 were insignificant.



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Our financial instruments measured at fair value on a recurring basis at March 31, 2016, were as follows:

|  | Total         | Level 1 | Level 2 | Level 3 |
|--|---------------|---------|---------|---------|
|  | (In millions) |         |         |         |
| Corporate debt securities                                | \$1,425       | \$—     | \$1,425 | \$—     |
| Government-sponsored enterprise securities (GSEs)        | 214           | 214     | —       | —       |
| Municipal securities                                     | 165           | —       | 165     | —       |
| U.S. treasury notes                                      | 114           | 114     | —       | —       |
| Certificates of deposit                                  | 78            | —       | 78      | —       |
| Asset-backed securities                                  | 74            | —       | 74      | —       |
| Subtotal - current investments                           | 2,070         | 328     | 1,742   | —       |
| 1.125% Call Option derivative asset                      | 377           | —       | —       | 377     |
| Total assets measured at fair value on a recurring basis | \$2,447       | \$328   | \$1,742 | \$377   |

|   |       |     |     |       |
|---|-------|-----|-----|-------|
| 1.125% Conversion Option derivative liability                 | \$377 | \$— | \$— | \$377 |
| Total liabilities measured at fair value on a recurring basis | \$377 | \$— | \$— | \$377 |

Our financial instruments measured at fair value on a recurring basis at December 31, 2015, were as follows:

|  | Total         | Level 1 | Level 2 | Level 3 |
|--|---------------|---------|---------|---------|
|  | (In millions) |         |         |         |
| Corporate debt securities                                | \$1,184       | \$—     | \$1,184 | \$—     |
| GSEs   | 211           | 211     | —       | —       |
| Municipal securities                                     | 185           | —       | 185     | —       |
| U.S. treasury notes                                      | 78            | 78      | —       | —       |
| Certificates of deposit                                  | 80            | —       | 80      | —       |
| Asset-backed securities                                  | 63            | —       | 63      | —       |
| Subtotal - current investments                           | 1,801         | 289     | 1,512   | —       |
| 1.125% Call Option derivative asset                      | 374           | —       | —       | 374     |
| Total assets measured at fair value on a recurring basis | \$2,175       | \$289   | \$1,512 | \$374   |

|   |       |     |     |       |
|---|-------|-----|-----|-------|
| 1.125% Conversion Option derivative liability                 | \$374 | \$— | \$— | \$374 |
| Total liabilities measured at fair value on a recurring basis | \$374 | \$— | \$— | \$374 |

## Fair Value Measurements – Disclosure Only

The carrying amounts and estimated fair values of our senior notes, which are classified as Level 2 financial instruments, are indicated in the following table.

|                          | March 31,<br>2016 |               | December<br>31, 2015 |               |
|--------------------------|-------------------|---------------|----------------------|---------------|
|                          | Carrying<br>Value | Fair<br>Value | Carrying<br>Value    | Fair<br>Value |
|                          | (In millions)     |               |                      |               |
| 5.375% Notes             | \$689             | \$721         | \$689                | \$700         |
| 1.125% Convertible Notes | 454               | 914           | 448                  | 865           |
| 1.625% Convertible Notes | 276               | 379           | 273                  | 365           |
|                          | \$1,419           | \$2,014       | \$1,410              | \$1,930       |

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## 6. Investments

The following tables summarize our investments as of the dates indicated:

|                           | March 31, 2016    |                              |                            |                            |
|---------------------------|-------------------|------------------------------|----------------------------|----------------------------|
|                           | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Estimated<br>Fair<br>Value | Estimated<br>Fair<br>Value |
|                           |                   | Losses                       |                            |                            |
|                           | (In millions)     |                              |                            |                            |
| Corporate debt securities | \$1,424           | \$ 3                         | \$ 2                       | \$ 1,425                   |
| GSEs                      | 214               | —                            | —                          | 214                        |
| Municipal securities      | 164               | 1                            | —                          | 165                        |
| U.S. treasury notes       | 114               | —                            | —                          | 114                        |
| Certificates of deposit   | 78                | —                            | —                          | 78                         |
| Asset-backed securities   | 74                | —                            | —                          | 74                         |
|                           | \$2,068           | \$ 4                         | \$ 2                       | \$ 2,070                   |
|                           | December 31, 2015 |                              |                            |                            |
|                           | Amortized<br>Cost | Gross<br>Unrealized<br>Gain  | Estimated<br>Fair<br>Value | Estimated<br>Fair<br>Value |
|                           |                   | Losses                       |                            |                            |
|                           | (In millions)     |                              |                            |                            |
| Corporate debt securities | \$1,189           | \$ —                         | \$ 5                       | \$ 1,184                   |
| GSEs                      | 212               | —                            | 1                          | 211                        |
| Municipal securities      | 186               | —                            | 1                          | 185                        |
| U.S. treasury notes       | 78                | —                            | —                          | 78                         |
| Certificates of deposit   | 80                | —                            | —                          | 80                         |
| Asset-backed securities   | 63                | —                            | —                          | 63                         |
|                           | \$1,808           | \$ —                         | \$ 7                       | \$ 1,801                   |

The contractual maturities of our investments as of March 31, 2016 are summarized below:

|  | Amortized<br>Cost | Estimated<br>Fair<br>Value |
|--|-------------------|----------------------------|
|  | (In millions)     |                            |
| Due in one year or less                | \$1,109           | \$ 1,109                   |
| Due after one year through five years  | 938               | 940                        |
| Due after five years through ten years | 21                | 21                         |
|  | \$2,068           | \$ 2,070                   |

Gross realized gains and losses from sales of available-for-sale securities are calculated under the specific identification method and are included in investment income. Gross realized investment gains and losses for the three months ended March 31, 2016 and 2015 were insignificant.

We have determined that unrealized gains and losses at March 31, 2016 and December 31, 2015, are temporary in nature, because the change in market value for these securities has resulted from fluctuating interest rates, rather than a deterioration of the credit worthiness of the issuers. So long as we maintain the intent and ability to hold these securities to maturity, we are unlikely to experience gains or losses. In the event that we dispose of these securities before maturity, we expect that realized gains or losses, if any, will be immaterial.

The following table segregates those available-for-sale investments that have been in a continuous loss position for less than 12 months, and those that have been in a loss position for 12 months or more as of March 31, 2016:

| In a Continuous Loss<br>Position<br>for Less than 12 Months | In a Continuous Loss Position<br>for 12 Months or More |
|---|--|
| Estimated<br>Unrealized Total                               | Estimated<br>Unrealized Total                          |

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|                           | Fair Value            | Losses | Number of Positions | Fair Value | Losses | Number of Positions |
|---------------------------|-----------------------|--------|---------------------|------------|--------|---------------------|
|                           | (Dollars in millions) |        |                     |            |        |                     |
| Corporate debt securities | \$453                 | \$ 2   | 274                 | \$ —       | \$ —   | —                   |

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The following table segregates those available-for-sale investments that have been in a continuous loss position for less than 12 months, and those that have been in a loss position for 12 months or more as of December 31, 2015:

|                           | In a Continuous Loss Position<br>for Less than 12 Months |                      |                                 | In a Continuous Loss<br>Position<br>for 12 Months or More |                      |                                 |
|---------------------------|--|----------------------|---------------------------------|---|----------------------|---------------------------------|
|                           | Estimated<br>Fair<br>Value                               | Unrealized<br>Losses | Total<br>Number of<br>Positions | Estimated<br>Fair<br>Value                                | Unrealized<br>Losses | Total<br>Number of<br>Positions |
|                           | (Dollars in millions)                                    |                      |                                 |   |                      |                                 |
| Corporate debt securities | \$825  | \$ 4                 | 588                             | \$119   | \$ 1                 | 87                              |
| GSEs                      | 182  | 1                    | 77                              | —   | —                    | —                               |
| Municipal securities      | 128  | 1                    | 181                             | —   | —                    | —                               |
|                           | \$1,135  | \$ 6                 | 846                             | \$119   | \$ 1                 | 87                              |

## 7. Receivables

Receivables consist primarily of amounts due from government Medicaid agencies, which may be subject to potential retroactive adjustments. Because all of our receivable amounts are readily determinable and substantially all of our creditors are governmental authorities, our allowance for doubtful accounts is immaterial. The information below is presented by segment.

|                                   | March 31,<br>2016 | December 31,<br>2015 |
|-----------------------------------|-------------------|----------------------|
|                                   | (In millions)     |                      |
| California                        | \$121             | \$ 104               |
| Florida                           | 62                | 22                   |
| Illinois                          | 94                | 35                   |
| Michigan                          | 58                | 39                   |
| New Mexico                        | 73                | 51                   |
| Ohio                              | 89                | 66                   |
| Puerto Rico (1)                   | 54                | 33                   |
| South Carolina                    | 10                | 6                    |
| Texas                             | 77                | 56                   |
| Utah                              | 28                | 18                   |
| Washington                        | 69                | 53                   |
| Wisconsin                         | 24                | 22                   |
| Direct delivery and other         | 9                 | 6                    |
| Total Health Plans segment        | 768               | 511                  |
| Molina Medicaid Solutions segment | 37                | 37                   |
| Other segment                     | 58                | 49                   |
|                                   | \$863             | \$ 597               |

(1) See Note 14, Commitments and Contingencies, for further discussion of Puerto Rico health plan receivables.

## 8. Restricted Investments

Pursuant to the regulations governing our Health Plans segment subsidiaries, we maintain statutory deposits and deposits required by government authorities in certificates of deposit and U.S. treasury securities. We also maintain restricted investments as protection against the insolvency of certain capitated providers. The following table presents the balances of

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restricted investments:

|                            | March 31, 2016 | December 31, 2015 |
|----------------------------|----------------|-------------------|
|                            | (In millions)  |                   |
| Florida                    | \$34           | \$ 34             |
| Illinois                   | 3              | —                 |
| Michigan                   | 1              | 1                 |
| New Mexico                 | 47             | 43                |
| Ohio                       | 12             | 12                |
| Puerto Rico                | 10             | 10                |
| Texas                      | 4              | 4                 |
| Utah                       | 4              | 4                 |
| Wisconsin                  | 1              | 1                 |
| Total Health Plans segment | \$116          | \$ 109            |

The contractual maturities of our held-to-maturity restricted investments as of March 31, 2016 are summarized below:

|                                       | Amortized Cost | Estimated Fair Value |
|---------------------------------------|----------------|----------------------|
|                                       | (In millions)  |                      |
| Due in one year or less               | \$111          | \$ 111               |
| Due after one year through five years | 5              | 5                    |
|                                       | \$116          | \$ 116               |

**9. Medical Claims and Benefits Payable**

The following table provides the details of our medical claims and benefits payable (including amounts payable for the provision of long-term services and supports, or LTSS) as of the dates indicated.

|   | March 31, 2016 | December 31, 2015 |
|---|----------------|-------------------|
|   | (In millions)  |                   |
| Fee-for-service claims incurred but not paid (IBNP) | \$1,392        | \$ 1,191          |
| Pharmacy payable                                    | 111            | 88                |
| Capitation payable                                  | 138            | 140               |
| Other   | 299            | 266               |
|   | \$1,940        | \$ 1,685          |

"Other" medical claims and benefits payable include amounts payable to certain providers for which we act as an intermediary on behalf of various government agencies without assuming financial risk. Such receipts and payments do not impact our consolidated statements of income. Non-risk provider payables amounted to \$191 million and \$167 million as of March 31, 2016 and December 31, 2015, respectively.

The following table presents the components of the change in our medical claims and benefits payable for the periods indicated. The amounts presented for "Components of medical care costs related to: Prior periods" represent the amount by which our original estimate of medical claims and benefits payable at the beginning of the period were more than the actual amount of the liability based on information (principally the payment of claims) developed since that liability was first reported.

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|  | Three<br>Months<br>Ended<br>March 31,<br>2016 | Year Ended<br>December 31,<br>2015 |  |   |
|--|---|------------------------------------|--|---|
|  | (Dollars in millions)                         |                                    |  |   |
| Medical claims and benefits payable, beginning balance | \$ 1,685                                      | \$ 1,201                           |  |   |
| Components of medical care costs related to:           |   |                                    |  |   |
| Current period   | 3,755   | 11,935                             |  |   |
| Prior periods  | (167 )  | (141 )                             |  |   |
| Total medical care costs                               | 3,588   | 11,794                             |  |   |
| Change in non-risk provider payables                   | 24  | 48                                 |  |   |
| Payments for medical care costs related to:            |   |                                    |  |   |
| Current period   | 2,241   | 10,448                             |  |   |
| Prior periods  | 1,116   | 910                                |  |   |
| Total paid   | 3,357   | 11,358                             |  |   |
| Medical claims and benefits payable, ending balance    | \$ 1,940                                      | \$ 1,685                           |  |   |
| Benefit from prior period as a percentage of:          |   |                                    |  |   |
| Balance at beginning of period                         | 10.0  | % 11.8                             |  | % |
| Premium revenue, trailing twelve months                | 1.2   | % 1.1                              |  | % |
| Medical care costs, trailing twelve months             | 1.3   | % 1.2                              |  | % |

The portion of our total medical claims and benefits payable liability that is most subject to variability in the estimate is fee-for-service claims incurred but not paid (IBNP). Our IBNP, as included in medical claims and benefits payable, represents our best estimate of the total amount of claims we will ultimately pay with respect to claims that we have incurred as of the balance sheet date. We estimate our IBNP monthly using actuarial methods based on a number of factors.

Assuming that our initial estimate of IBNP is accurate, we believe that amounts ultimately paid would generally be between 8% and 10% less than the IBNP liability recorded at the end of the period as a result of the inclusion in that liability of the provision for adverse claims deviation and the accrued cost of settling those claims. Because the amount of our initial liability is merely an estimate (and therefore not perfectly accurate), we will always experience variability in that estimate as new information becomes available with the passage of time. Therefore, there can be no assurance that amounts ultimately paid out will fall within the range of 8% to 10% lower than the liability that was initially recorded. Furthermore, because our initial estimate of IBNP is derived from many factors, some of which are qualitative in nature rather than quantitative, we are seldom able to assign specific values to the reasons for a change in estimate – we only know when the circumstances for any one or more factors are out of the ordinary.

The use of a consistent methodology in estimating our liability for medical claims and benefits payable minimizes the degree to which the under- or overestimation of that liability at the close of one period may affect consolidated results of operations in subsequent periods. In particular, the use of a consistent methodology should result in the replenishment of reserves during any given period in a manner that generally offsets the benefit of favorable prior period development in that period. Facts and circumstances unique to the estimation process at any single date, however, may still lead to a material impact on consolidated results of operations in subsequent periods. Any absence of adverse claims development (as well as the expensing through general and administrative expense of the costs to settle claims held at the start of the period) will lead to the recognition of a benefit from prior period claims development in the period subsequent to the date of the original estimate.

As indicated above, the amounts ultimately paid out on our medical claims and benefits payable liabilities in fiscal years 2016 and 2015 were less than what we had expected when we had established those liabilities. The differences between our original estimates and the amounts ultimately paid out (or now expected to be ultimately paid out) for the

most part related to IBNP. While many related factors working in conjunction with one another determine the accuracy of our estimates, we are seldom able to quantify the impact that any single factor has on a change in estimate. In addition, given the variability inherent in the reserving process, we will only be able to identify specific factors if they represent a significant departure from expectations. As a result, we do not expect to be able to fully quantify the impact of individual factors on changes in estimates.

We believe that the most significant uncertainties surrounding our IBNP estimates at March 31, 2016 are as follows:

- In the first quarter of 2016, our Marketplace enrollment across all health plans increased by approximately 425,000 members. Some of the states with significant increases included:

California: 57,000

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Florida: 114,000

Texas: 122,000

Utah: 48,000

Wisconsin: 39,000

Because these new Marketplace members may have different utilization patterns than our legacy members, the reserves are subject to more than the usual amount of uncertainty.

Our Illinois health plan added over 100,000 new members under acquisitions of three Medicaid contracts during the first quarter of 2016. Because these new members may have different utilization patterns than our legacy members, the reserves are subject to more than the usual amount of uncertainty.

Our Florida health plan added approximately 100,000 new members under an acquisition in the fourth quarter of 2015. Because these new members may have different utilization patterns than our legacy members, the reserves are subject to more than the usual amount of uncertainty.

At our New Mexico health plan, we overpaid certain inpatient and outpatient facility claims. We adjusted our claims payment history to reflect the claims payment pattern that would have occurred without these overpayments. For this reason, the reserves are subject to more than the usual amount of uncertainty.

We recognized favorable prior period claims development in the amount of \$167 million for the three months ended March 31, 2016. This amount represents our estimate as of March 31, 2016, of the extent to which our initial estimate of medical claims and benefits payable at December 31, 2015 was more than the amount that will ultimately be paid out in satisfaction of that liability. We believe the overestimation was due primarily to the following factors:

A new version of diagnostic codes was required for all claims with dates of service October 1, 2015, and later. As a result, payment was delayed or denied for a significant number of claims due to provider submission of claims with diagnostic codes that were no longer valid. Once providers were able to submit claims with the correct diagnostic codes, our actual costs were ultimately less than expected.

At our New Mexico health plan, we overstated the impact of several pending high-dollar claims, and our actual costs were ultimately less than expected.

At our Washington health plan, we overpaid certain outpatient facility claims in 2015 when the state converted to a new payment methodology. We did not include an estimate in the reserves for this potential recovery as of December 31, 2015.

## 10. Debt

As of March 31, 2016, contractual maturities of debt for the years ending December 31 are as follows:

|                              | Total         | 2016 | 2017 | 2018 | 2019 | 2020   | Thereafter |
|------------------------------|---------------|------|------|------|------|--------|------------|
|                              | (In millions) |      |      |      |      |        |            |
| 5.375% Notes                 | \$ 700        | \$ — | \$ — | \$ — | \$ — | \$ —   | \$ 700     |
| 1.125% Convertible Notes     | 550           | —    | —    | —    | —    | 550    | —          |
| 1.625% Convertible Notes (1) | 302           | —    | —    | —    | —    | —      | 302        |
| Other                        | 1             | 1    | —    | —    | —    | —      | —          |
|                              | \$ 1,553      | \$ 1 | \$ — | \$ — | \$ — | \$ 550 | \$ 1,002   |

The 1.625% Notes have a contractual maturity date in 2044; however, on specified dates beginning in 2018 as (1) described below, holders of the 1.625% Notes may require us to repurchase some or all of the 1.625% Notes, or we may redeem any or all of the 1.625% Notes.

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Substantially all of our debt is held at the parent, which is reported in the Other segment. The principal amounts, unamortized discount (net of premium related to 1.625% Notes), unamortized issuance costs, and net carrying amounts of debt were as follows:

Principal Unamortized

Balance Discount